

2011 SECOND QUARTER REPORT

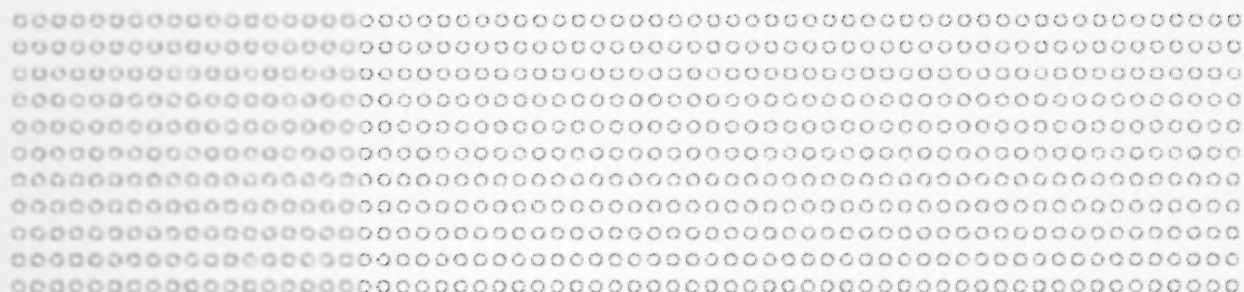
CONNECTION

TRANSFORMATION

EVOLUTION







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MESSAGE FROM THE PRESIDENT

VIA performed well during the second quarter of 2011, with revenues and ridership continuing the momentum for growth achieved since the beginning of the year. Total revenues were four (4) percent higher compared to the second quarter of 2010, and year-to-date revenues are five (5) percent higher than last year.

Our focus on eliminating waste, increasing productivity and containing costs also delivered good results. Operating expenses before pension costs and corporate taxes were slightly lower than in the second quarter of 2010. Direct operating costs per available seat mile were reduced by 10 percent compared with the second quarter of 2010. As a result, VIA has reduced its operating deficit before government funding and corporate taxes by close to two (2) million dollars for the quarter and five (5) million dollars when including the first quarter.

At the same time, we continued to enhance the quality of service we deliver, building better connections with our customers, other passenger services, and the communities we serve.

Recently launched partnerships with GO Transit and other transportation partners now provide more integrated travel connection solutions to our customers. Online, our new social media strategy, which has already been cited as a good example of how to connect with customers, enhances VIA's presence, allowing customers to reach us quickly through forums such as Facebook and Twitter. Through our capital investment program, customers are also enjoying better Internet connections thanks to a much improved mobile Wi-Fi service on our trains. In fact, as progress continues, VIA's service is being recognized by some as the fastest mobile Wi-Fi in the transportation world. Moreover, our first Annual Public Meeting in June provided an excellent forum for a public discussion of VIA's performance and plans for the future, including a live simultaneous webcast for those who could not attend in person.



During this quarter the Teamsters Canada Rail Conference (TCRC), representing VIA's locomotive engineers and yardmasters, ratified a four-year contract with VIA. Following the agreement reached last year with the Canadian Auto Workers (CAW), this provides stability for VIA's operations and for VIA's customers. It also ensures that the corporation is prepared to address future challenges as a team.

This is critical as we prepare for the future. The progress we are making on key equipment, infrastructure and station investment projects makes 2011 a pivotal year, and it will allow us to introduce more trains, more frequent services, and faster trip times in 2012.

A stylized, handwritten signature in dark ink, appearing to read 'Marc Laliberté'.

Marc Laliberté
President and Chief Executive Officer



OUR BUSINESS

VIA Rail operates Canada's national passenger rail service on behalf of the Government of Canada. An independent Crown corporation established in 1977, VIA provides a safe, efficient and environmentally responsible service in both official languages from coast to coast. VIA operates up to 500 trains weekly on 12,500 kilometres of track, connecting over 450 Canadian communities. With approximately 2,800 employees, VIA carried more than 4.1 million passengers in 2010.

2011: SECOND QUARTER AT A GLANCE

(IN MILLIONS OF DOLLARS)

KEY FINANCIAL INDICATORS

	Q2-2011	Q2-2010	YTD 2011	YTD 2010
Total passenger revenue	64.5	62.5	121.6	116.1
Total revenue	69.1	66.4	130.8	124.1
Operating expenses	131.3	132.8	262.0	270.0
Pension expense	9.7	7.2	21.7	12.0
Total operating expenses	141.0	140.0	283.7	282.0
Government funding	75.7	80.0	137.4	136.0
Amortization of deferred capital funding	9.7	11.6	21.0	22.8
Corporate tax expense	(3.8)	0.1	(3.7)	0.2
Net gain (loss) for the quarter	17.3	17.9	9.2	0.7
Capital expenditures	54.5	50.2	110.3	105.7

KEY OPERATING STATISTICS

Total passenger-miles (IN MILLIONS)	206	208	389	384
Total seat-miles (IN MILLIONS)	388	375	736	704
Government operating funding per passenger-miles (IN CENTS)	34.9	35.3	39.3	41.1
Yield (CENTS PER PASSENGER-MILE)	31.0	29.9	31.0	29.9
Train-miles operated (IN THOUSANDS)	1,640	1,659	3,268	3,318
Car-miles operated (IN THOUSANDS)	11,659	11,180	20,853	20,745
Average passenger load factor (%)	53.2	55.6	52.9	54.6
Average number of passenger-miles per train mile	126	126	119	116
On-time performance (%)	85	81	81	84
Number of full time employees at end of period	2,802	2,851	2,802	2,851

KEY OPERATING STATISTICS PER SERVICE GROUP, SECOND QUARTER, 2011

Train Service	Passenger Miles (in thousands)	Passenger Revenues (in thousands)	Passengers (in thousands)	Government Funding per Passenger Mile
Windsor-Quebec City Corridor	150,406	\$48,122	903	\$0.19
Long-distance and Tourism				
<i>The Canadian</i>	35,097	\$11,481	29	\$0.27
<i>The Ocean</i>	13,744	\$2,928	30	\$0.57
Mandatory Services	6,977	\$1,583	26	\$1.60

KEY OPERATING STATISTICS PER SERVICE GROUP, YEAR-TO-DATE TO JUNE 30, 2011

Train Service	Passenger Miles (in thousands)	Passenger Revenues (in thousands)	Passengers (in thousands)	Government Funding per Passenger Mile
Windsor-Quebec City Corridor	300,038	\$97,278	1,824	\$0.23
Long-distance and Tourism				
<i>The Canadian</i>	50,493	\$15,173	43	\$0.52
<i>The Ocean</i>	25,952	\$5,542	57	\$0.72
Mandatory Services	12,766	\$2,821	50	\$1.84



CAPITAL INVESTMENT

In 2007 the Government of Canada announced a five-year, \$516 million capital investment in passenger rail infrastructure and equipment. Another \$407 million was made available for capital projects in 2009, through the Government's economic stimulus funding program, Canada's Economic Action Plan.

With this investment, totalling \$923 million, VIA is expanding track capacity, building better traffic control systems, modernizing passenger facilities and stations, and renewing equipment. When these major capital projects are complete, we will be able to operate more trains, deliver faster trip times, offer more frequent departures, and provide a better quality of service to Canadians.

As of June 30, 2011 VIA has completed the following:

- Installation of Computerized Traffic Control systems, new sidings and crossings, and 10 miles of new fencing in our Brockville subdivision, Eastern Ontario;
- Rebuilding of 30 F-40 locomotives (out of a total of 53) to improve reliability, efficiency and environmental performance, and extend the life of the locomotives by 15-20 years;
- Rebuilding of two (2) LRC (Light, Rapid, Comfortable) passenger cars (out of a total of 98) to improve reliability, accessibility, passenger comfort and environmental performance, and to extend the life of the cars by 15-20 years;
- Rebuilding three (3) Renaissance cars (from a total of 59 cars) with improved accessibility features for travellers with special needs;
- Major enhancements to mobile Wi-Fi services, as work on implementing a new Wi-Fi infrastructure continues.

Work on building and renovating passenger stations across the network, as well as major infrastructure projects in the Windsor-Quebec City Corridor, continued on schedule.



KEY PERFORMANCE INDICATORS

VIA's managers use six (6) key performance indicators to monitor operational performance. These indicators are shared each month with employees, and help to identify areas where the corporation is performing well, and areas where improvements are needed. In the second quarter of 2011 performance improved on all but one of these measures, compared with the second quarter of 2010.

SAFETY: **TRAIN INCIDENTS PER MILLION TRAIN-MILES**

This measure reflects VIA's efforts to achieve continuous improvements in operational safety. Train incidents include events such as train-to-train collisions, derailments, and rule violations. There were five (5) incidents this quarter, compared to nine (9) incidents in Q2-2010. While this is a significant improvement, VIA's goal is to achieve zero incidents.

Highway-rail crossing accidents and trespassing incidents are not included in this measure of safety performance, since the majority of these are beyond VIA's control. Unfortunately, there were six (6) highway-rail crossing and trespassing

accidents resulting in serious injury or death to five (5) people. VIA continues to take a very proactive approach in working with communities and the public to prevent accidents caused by third parties. Since many of these incidents occur at rail crossings located on private property, VIA is contacting owners and encouraging them to make use of Transport Canada grants for closing these crossings. VIA also continued an outreach program, identifying high-risk crossing and trespassing areas, and working with local police and other agencies to increase vigilance and public awareness concerning the dangers involved.

CUSTOMER SATISFACTION: ON-TIME PERFORMANCE

On-time performance is a key driver of customer satisfaction, and improving performance is a priority for VIA Rail. On-time performance increased from 81 percent to 85 percent over Q2-2010.

A number of initiatives in areas such as On-Time Departures, Maintenance and Servicing, and Train Operations Safety are now underway to identify and resolve problems which cause delays.

During the second quarter of 2011 VIA developed a new Connecting Passengers Protocol, which sets out standards and procedures to ensure VIA trains depart on time. This protocol focuses on making passenger connections as efficient as possible, re-accommodating passengers on other trains if necessary in order to ensure the on-time departures of all trains, wherever possible.

REVENUES: PASSENGER REVENUES PER AVAILABLE SEAT-MILE

This is a measure of profitability, obtained by dividing total passenger revenues by total available seat-miles. (Seat-miles are the number of seats available for sale multiplied by the number of miles travelled.) VIA made a strategic decision this quarter to increase the number of available seat miles, knowing that this could have a negative impact on this perfor-

mance indicator. As expected, revenues per available seat mile dropped slightly by 0.15 cents compared to Q2-2010. However, by making excess seat inventory available for sale at very attractive prices, this allowed VIA to make incremental revenue gains at zero or very low incremental costs.

COSTS:

DIRECT COSTS PER AVAILABLE SEAT-MILE

This measure indicates direct operating costs divided by total available seat-miles. Direct costs per available seat-mile were 10 percent lower than in Q2-2010. Major

direct cost items such as compensation were lower. Fuel prices, as well as fuel consumption, were also lower.

PRODUCTIVITY:

TOTAL REVENUES PER EMPLOYEE

This measure indicates year-to-date revenues (annualized) divided by the number of employees (converted to full time equivalents).

Revenues per employee were six (6) percent higher than in Q2-2010, reflecting

both significant revenue growth across VIA's network, and the fact that VIA's workforce is smaller than the previous year. Higher revenue per employee was achieved in each service except for Mandatory services.

EMPLOYEE ENGAGEMENT:

ATTENDANCE

This measure indicates total hours of employee absences per month divided by the total possible work hours per month. Average employee attendance was up slightly in 2011 compared to the same period in 2010.

VIA has recently implemented a number of initiatives which are expected to improve attendance in upcoming quarters.

A new Attendance Policy and Attendance Management Program clarify attendance expectations for all managers/supervisors and employees. Managers and supervisors now have clear guidelines and processes, as well as appropriate tools for measuring and monitoring absenteeism. This will allow better control of day-to-day operations and greater efficiency.

COMMUNITY RELATIONS AND ACCOUNTABILITY

THE BOARD OF DIRECTORS

The Board of Directors consists of 14 persons. 13 members are appointed by the Government of Canada whereas the President and Chief Executive Officer is an ex-officio member of the Board. The Board is responsible for overseeing the strategic direction and management of the Corporation, and reports on VIA's operations to the Minister of Transport.

During the second quarter of 2011, three (3) Board meetings and nine (9) Board Committee meetings were held. The average attendance rate by Directors at these meetings was 89 percent. The cumulative fees paid to Board of Directors members for the second quarter of 2011 was \$55,899.

ANNUAL PUBLIC MEETING

VIA held its first Annual Public Meeting on June 14 at the Ottawa train station. Broadcast simultaneously on the Internet, the meeting provided an opportunity for the public to learn about VIA's business operations, financial performance and VIA's projects for improvements. It also gave the public a chance to speak directly with VIA's Chairman, President and executive officers. The Chairman, President and executive officers also answered questions sent by email from members of the public who could not attend in person.

In conjunction with the meeting, VIA held a reception for local stakeholders, business partners, Members of Parliament and VIA Préférence program members, and met with the newly appointed federal transport ministers.

OFFICIAL LANGUAGES

VIA is committed to the principles of the Official Languages Act. VIA employees share this commitment with customers through "active offer" – demonstrating a willingness to provide service in either English or French. All internal and external communications are written in French and in English, and VIA uses both languages in its business practices.

During the second quarter of 2011 VIA received zero complaints from the Office of the Commissioner of Official Languages.

VIA has launched an active outreach program working with Official Language Minority Community (OLMC) organizations to support linguistic duality across Canada. The program includes engaging with organizations to discuss VIA's bilingual services available to them, and sponsorships for community fundraising events. During the second quarter of 2011 VIA provided sponsorship support to the Société francophone de Victoria and Francofonds in Winnipeg.

SOCIAL MEDIA

VIA launched its official Facebook page in April, and received an immediate and positive response. Within a few weeks, VIA had more than 40,000 Facebook "fans" – more than many other passenger services, including well-established airlines.

The VIA Facebook page provides an opportunity for people to share their thoughts and train travel experiences with VIA, as well as learn about the latest VIA news, offers and promotions. Along with Twitter, email, and VIA's award-winning website, Facebook is part of VIA's strategy to recruit more customers, establish a strong online presence, and engage in a more dynamic dialogue than is possible through more traditional media.

ENVIRONMENT

VIA continued its commitment to environmentally sound practices in the second quarter of 2011.

In June, VIA's Montreal Maintenance Centre successfully maintained its ISO 14001 certification for the year following an external audit. During the audit, no non-conformities were found. The system weaknesses related to training and hazardous material management that were identified, are presently being addressed by VIA management.

At VIA's Toronto Maintenance Centre, a new fuelling storage and distribution system was activated during the second quarter of 2011. The new system not only meets all current environmental regulations and standards, but also improves fuelling practices and performance, ensuring a more efficient process overall. Access to real-time information on the consumption of fuel also allows VIA to more accurately manage its fuel usage.

ACCESS TO INFORMATION AND PRIVACY

VIA receives and responds promptly to information requests under the Access to Information Act and the Privacy Act. During the second quarter of 2011 VIA received 14 such requests, which were in process at the end of the quarter.

COMMUNITY INVOLVEMENT

VIA works with a variety of local, regional and national charity groups and non-profit organizations to support community activities, fundraisers and initiatives across the country. Promotional travel credits are donated to qualifying organizations that have submitted requests through VIA's website.

During the second quarter of 2011 VIA supported 266 non-profit and charitable organizations with travel credit donations representing a total value of \$290 000.

TRAVEL, HOSPITALITY, CONFERENCE EXPENSES

The following travel, hospitality and conference expenses were submitted during the second quarter of 2011:

Paul G. Smith, Chairman of the Board - \$ 2,300
 Marc Laliberté, President and CEO - \$9,800
 Executive management committee members - \$ 26,700
 Board of Directors members - \$21,500

During the second quarter of 2011, the President and CEO travelled to Poland to attend the Annual General Meeting of the International Union of Railways (UIC), for which he is an Executive Board member. Expenses associated with this conference totalled \$7,000, and are included in the above sum.

Travel expenses submitted by the Board of Directors reflect the diverse geographical locations of the members.



MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of VIA Rail Canada's operations, performance and financial position for the quarter and year to date ended June 30, 2011, compared with the quarter and year to date ended June 30, 2010. It should be read in conjunction with the unaudited financial statements and notes.

The financial statements are prepared in accordance with international financial reporting standards (IFRS). Figures for 2010 have been adjusted and converted to international financial reporting standards (IFRS), as the annual report for 2010 presented financial statements under Canadian Generally Accepted Accounting Standards (Canadian GAAP).

1. FINANCIAL HIGHLIGHTS

In Millions of Canadian dollars	Quarter ended June 30				Semester ended June 30			
	2011	2010	Var \$	Var %	2011	2010	Var \$	Var %
Passenger revenues	64.5	62.5	2.0	3.2%	121.6	116.1	5.5	4.7%
Total revenues	69.1	66.4	2.7	4.1%	130.8	124.1	6.7	5.4%
Operating expenses	141.0	140.0	1.0	0.7%	283.7	282.0	1.7	0.6%
Operating deficit before funding from Government of Canada and corporate taxes	(71.9)	(73.6)	(1.7)	-2.3%	(152.9)	(157.9)	(5.0)	-3.2%
Operating funding from Government of Canada	75.7	80.0	(4.3)	-5.4%	137.4	136.0	1.4	1.0%
Amortization of deferred capital funding	9.7	11.6	(1.9)	-16.4	21.0	22.8	(1.8)	-7.9%
Corporate tax expense (Recovery)	(3.8)	0.1	3.9	n/a	(3.7)	0.2	3.9	n/a
Net income and comprehensive income for the quarter	17.3	17.9	(0.6)	-3.4%	9.2	0.7	8.5	n/a

After six months completed in 2011, revenues have increased by 5.4% compared to last year; passenger-miles have grown by 1.3% combined with higher fares achieved through the Corporation's revenue management program, especially in the Quebec City-Windsor Corridor and Western Longhaul routes.

Operating expenses rose by \$1.7M, the increase strictly due to higher pension costs (\$9.7M), other expenses have decreased by \$8.0M.

As a result, the Corporation has reduced its Operating deficit before funding from the Government of Canada and Corporate taxes by \$5.0M (3.2%).

HIGHLIGHTS OF THE QUARTER

Compared with the quarter ended June 30, 2010:

- Revenues have grown by 4.1% and total \$69.1M for the quarter.
- Operating expenses have increased by 0.7% and amount to \$141.0M for the quarter.
- Funding from Government of Canada decreased by 5.4% to \$75.7M for the quarter.
- There is a net profit of \$17.3M for the quarter, compared to a profit of \$17.9M for the same quarter of 2010.

HIGHLIGHTS OF THE SIX MONTHS ENDED JUNE 30, 2011

Compared with the semester ended June 30, 2010:

- Revenues have grown by 5.4% and total \$130.8M for the period.
- Operating expenses have increased by 0.6% and amount to \$283.7M for the period.
- Funding from Government of Canada increased by 1.0% to \$137.4M for the period.
- There is a net profit of \$9.2M for the semester, compared to a profit of \$0.7M for the same semester in 2010.

2. HIGHLIGHTS OF OPERATING RESULTS

a) Passenger Revenues

	Revenues (in '000 000\$)							
	Quarter ended June 30				Semester ended June 30			
	2011	2010	Var \$	Var %	2011	2010	Var \$	Var %
Corridor East	\$37.6	\$36.2	\$1.4	3.9%	\$74.9	\$71.5	\$3.4	4.8%
SWO	\$10.6	\$10.0	\$0.6	6.0%	\$22.4	\$21.0	\$1.4	6.7%
Ocean	\$2.9	\$2.9	\$0.0	0.0%	\$5.5	\$5.4	\$0.1	1.9%
Canadian	\$11.5	\$11.0	\$0.5	4.5%	\$15.2	\$14.3	\$0.9	6.3%
Mandatory Services	\$1.6	\$1.8	(\$0.2)	-11.1%	\$2.8	\$3.0	(\$0.2)	-6.7%
Other	\$0.3	\$0.6	(\$0.3)	-50.0%	\$0.8	\$0.9	(\$0.1)	-11.1%
Total	\$64.5	\$62.5	\$2.0	3.2%	\$121.6	\$116.1	\$5.5	4.7%

	Passenger miles (in '000 000)							
	Quarter ended June 30				Semester ended June 30			
	2011	2010	Var	Var %	2011	2010	Var	Var %
Corridor East	120.8	120.2	0.6	0.5%	237.5	232.9	4.6	2.0%
SWO	29.6	29.9	(0.3)	-1.0%	62.6	61.4	1.2	1.9%
Ocean	13.7	14.6	(0.9)	-6.0%	25.9	26.7	(0.8)	-3.0%
Canadian	35.1	35.7	(0.6)	-1.6%	50.5	49.6	0.9	1.9%
Mandatory Services	7.0	8.0	(1.0)	-12.5%	12.7	13.8	(1.1)	-7.8%
Other	-	-	-	-	-	-	-	-
Total	206.2	208.4	(2.2)	-1.0%	389.2	384.4	4.8	1.3%

Passenger revenues have increased by 3.2% and total \$64.5M for the quarter. On a cumulative basis, they have grown by 4.7% and amount to \$121.6M. The performance of the quarter is explained by the increase in yields (revenues per passenger-mile), partly offset by a reduction in ridership.

The new MOT (Montreal-Ottawa-Toronto) service was introduced in April 2011 to provide additional frequencies between Montreal and Toronto (via Ottawa). Major infrastructure work will be completed in 2012 and additional trains added on the Toronto-Ottawa line.

On a cumulative basis, the increase stems from higher yields, ridership remaining stable compared to last year. Passenger-miles have grown reflecting the longer average trip lengths made by passengers.

For the quarter:

- Corridor East revenues are 3.9% higher than those of the previous year, and result mainly from the higher yields (3.2% vs last year). Passenger miles have grown slightly (+0.5%).
- Revenues in SWO have increased by 6.0% as a result of higher yields (+6%). Passenger levels are similar, but passenger-miles have decreased by 1.0% reflecting shorter trip lengths.
- Revenues on the Eastern service have remained stable compared to the last year, ridership has decreased (6.0% less passenger-miles) but yields have increased.
- Revenues on the Canadian have grown by 4.5% over the previous year. The performance stems from higher yields (+6.3%). Ridership also increased but passengers travelled on shorter distances, as reflected in the passenger-miles which have decreased by 1.6% compared to the same quarter last year.
- Mandatory Services have generated lower revenues, and the situation is directly attributable to the interruption of the Victoria-Courtenay service since April 2011 (busing service offered until the end of June 2011).

For the semester:

- Corridor East revenues have grown by 4.8%, resulting mostly increased yields (+2.7%). Ridership is similar to last year, but passenger-miles increased (+2.0%) reflecting the growth on end-to-end markets.
- Revenues in SWO have increased by 6.7% also as a result of higher yields (+4.9%) and passenger levels.
- Eastern Longhaul revenues have grown by 1.9% due to the increased yields (+5.7%), partly offset by the decline in ridership, reflected in the decrease of 3.0% in passenger-miles compared to last year.
- Revenues on the Canadian are 6.3% above last year's levels, due to the combination of yields (+3.9%) and ridership.
- Mandatory Services have generated lower revenues, a direct impact of the interruption of the Victoria-Courtenay service since April 2011 (busing service offered until the end of June 2011).

2. HIGHLIGHTS OF OPERATING RESULTS

b) Operating Expenses

In Millions of Canadian dollars	For the quarter ended June 30				For the semester ended June 30			
	2011	2010	Var \$	Var %	2011	2010	Var \$	Var %
Compensation & Benefits	47.8	49.8	(2.0)	-4.0%	102.2	105.9	(3.7)	-3.5%
Train Operations & Fuel	31.3	28.8	2.5	8.7%	60.7	57.4	3.3	5.7%
Other operating expenses	50.1	51.8	(1.7)	-3.3%	102.2	103.3	(1.1)	-1.1%
Unrealized loss (gain) on derivative financial instruments	3.7	0.7	3.0	n/a	(0.3)	(0.1)	0.2	200.0%
Realized loss (gain) on derivative financial instruments	(1.6)	1.7	(3.3)	-194.1%	(2.8)	3.5	(6.3)	-180.0%
Total Operating expenses before pension costs, amortization of deferred capital funding & Corporate Tax expense	131.3	132.8	(1.5)	-1.1%	262.0	270.0	8.0	-3.0%
Pension Costs - Employer contributions	9.7	7.2	2.5	34.7%	21.7	12.0	9.7	80.8%
Total Operating expenses before amortization of deferred capital funding & Corporate Tax expense	141.0	140.0	1.0	0.7%	283.7	282.0	1.7	0.6%
Corporate Taxes	(3.8)	0.1	(3.9)	n/a	(3.7)	0.2	(3.9)	n/a
Total Operating expenses before amortization of deferred capital funding	137.2	140.1	(2.9)	-2.1%	280.0	282.2	(2.2)	-0.8%

For the quarter:

- Operating expenses before pension contributions, amortization of deferred capital funding & Corporate tax expense decreased by \$1.5M and total \$131.3M for the quarter, mainly due to reductions in compensation and benefit costs, the gain realized on derivative financial instruments and other operating expenses including employee future benefits and maintenance material costs. These reductions were partly offset by increases in train operations and fuel expenses, as well as to an unrealized loss on derivative financial instruments.
- Fuel prices increased versus the previous year but the increase was offset by the gains realized on derivative financial instruments purchased through the Corporation's hedging policy. The Corporation realized a gain of \$1.6M for the quarter, compared to a loss of \$1.7M for the same period last year.
- The Corporation generated a credit of \$3.8M in Corporate taxes, compared to an expense of \$0.1M for the second quarter of 2010. The credit stems from a tax refund received for prior years' taxes.

For the semester:

- Operating expenses before pension contributions, amortization of deferred capital funding & Corporate tax expense decreased by \$8.0M and amount to \$262.0M. The decrease results primarily from reductions in compensation and benefits costs, maintenance material costs as well as the gains realized on derivative financial instruments. They are partly offset by increases in train operations and fuel expenses.
- Fuel prices increased versus the previous year but the increase was offset by the gains realized on derivative financial instruments purchased through the Corporation's hedging policy. Gains of \$2.8M were realized during the semester, compared to a loss of \$3.5M incurred in the same period last year.
- The Corporation generated a credit of \$3.7M in Corporate taxes, as compared to an expense of \$0.2M for the second quarter of 2010. The credit stems mainly from a tax refund received for prior years' taxes.

3. CAPITAL INVESTMENTS

Fixed assets (net of accumulated depreciation) amount to \$1,051.5M, up \$86.2M compared to the balance as at December 31, 2010. Capital investments for the quarter totaled \$54.5M, and \$110.3M for the semester.

○ Investments of \$33.0M were made in major infrastructure projects, mostly on the CN Kingston subdivision between Toronto and Brockville. On a year to date basis, investments total \$59.5M. Work is done to add sections of a third track between Toronto and Brockville to minimize congestion.

○ A total of \$15.3M was invested in major equipment projects, including \$4.7M for the LRC car fleet rebuild project, and \$6.6M for the F40 locomotive fleet rebuild project. After 6 months completed this year, a total of \$37.3M was invested in major equipment projects.

○ Investments of \$3.3M were also made in Information Technology projects during the quarter, bringing the cumulative investments to \$6.0M for the semester.

4. CASH FLOW AND FINANCIAL POSITION

For the quarter:

Cash position increased by \$0.8M in the second quarter of 2011 versus an increase of \$20.5M for the same period in 2010 due mainly to the investment in Property, Plant and Equipment.

For the semester:

Cash position decreased by \$59.2M in the first semester of 2011 versus an increase of \$18.4M for the same period in 2010 due mainly to a reduction in Deferred

Government Funding of \$51M and to the investment in Property, Plant and Equipment of \$29M.

The reduction in cash position since December 31, 2010 stems from the investments made in property, plant and equipment (\$137.0M), and cash used for operating activities (\$48.7M), partly offset by the funding received. The Corporation received \$110.3M of capital funding from the Government of Canada during the semester.

5. RISK ANALYSIS

A) OPERATING FUNDING

VIA continues to face operational funding challenges. The Corporation is pursuing the development and the implementation of a range of initiatives to reduce its deficit by reducing costs and increasing revenues. Furthermore, VIA continues to work with Transport Canada to address the challenge of operating loss and develop sustainable funding solutions.

B) CAPITAL FUNDING

VIA will need to continue investing in equipment, stations, maintenance systems, facilities and information technology after 2011, when the current investment program is completed. The Corporation is working with Transport Canada to address ongoing capital funding requirements, and to ensure that VIA has the capital funding it requires to deliver on its mandate.

C) CROSSING INCIDENTS

VIA's trains operate through many protected and unprotected level road crossings where vehicles can cross and where incidents/accidents could occur. VIA's managers have developed a crossing protection/fences and closure program and work actively with communities and owners of the land where there are crossings. The objectives of the program are to close crossings where possible and to increase public awareness about the potential dangers they represent.

D) PENSION PLANS

Pension plans liabilities continue to represent a significant risk to the Corporation due to their size (\$1.6B). Adverse investment returns and changes in interest rates can materially impact the funding status of the plans, and directly amplify the volatility in annual funding requirements. In recent years, the Corporation has implemented measures to mitigate this risk such as adjusting certain management practices and by aggressively reducing pension administrative expenses. The Corporation continues to explore means of further reducing this significant corporate risk.

E) RETIREMENT OF LOCOMOTIVE ENGINEERS

VIA is dependant on the specialized set of skills of the engineers who operate its locomotives. More than half of VIA's locomotive engineers could retire by the end of the year 2015, and if VIA were to experience a substantial turnover in its locomotive engineer group, its business could be adversely affected. The Corporation therefore launched, in December 2010, a training program for new locomotive engineers, with the first class scheduled to graduate in 2012. Two additional classes will start in 2012, for graduations in 2012 and 2013.

F) PASSENGER REVENUES

Following a sharp decline in travel markets in 2008, growth in ridership and revenues slowed compared to previous years. VIA continues to implement initiatives to mitigate the impact of slow growth in passenger revenues. These include optimizing train services between Montreal, Ottawa and Toronto, and generating additional revenues from real estate projects and through information technology improvements that support revenue management initiatives.

G) FUEL COST FLUCTUATIONS

Fuel is a major cost for passenger rail operations, and fuel costs could vary significantly from VIA's estimates due to the uncertainty and volatility of fuel prices. VIA's proven hedging strategy adds certainty to future fuel costs and can delay the impact of fuel price fluctuations. Given that contracts used to hedge fuel prices are denominated in U.S. dollars, VIA also hedges against foreign exchange risks.

H) CAPITAL INVESTMENT PROJECTS

Major delays in infrastructure or equipment projects, or an increase in project costs would adversely affect VIA's financial performance. VIA's managers monitor the progress of all projects closely in order to mitigate this risk, adjusting production timelines as needed to keep projects on track. In addition, VIA's Executive Capital Steering Committee meets regularly to discuss the status of all capital investment projects.

I) RE-PROFILING OF CAPITAL FUNDS

In 2007, Treasury Board approved a capital investment program of \$516 million which was later re-profiled within the 2007-2013 government fiscal years. If major delays were experienced in the infrastructure or equipment projects and completion date was beyond 2013, re-profiling of capital funds allocated to these projects would be required. Historically, re-profiling of funds which were justified were approved, and VIA's Executive Capital Steering Committee meets regularly to monitor and discuss the status of all capital project.

6. OUTLOOK

VIA's Corporate Plan expressed confidence in achieving revenue growth and higher productivity in 2011. The results of the second quarter indicate that the corporation is on track to achieving these goals, as well as showing a return to growth in ridership.

VIA remains committed to the goals set out in the Corporate Plan for 2011. Marketing strategies will continue to focus on maintaining and building on ridership

gains achieved this year. Lean management initiatives and a focus on productivity throughout the organization will help to ensure continuous improvements in efficiency.

As capital investment projects are completed in the coming months and in 2012, VIA will ensure that passenger rail delivers better value, to more Canadian travellers, while maintaining rigorous control over operating costs.



INTERIM FINANCIAL STATEMENTS

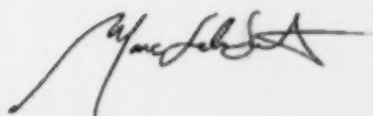
MANAGEMENT'S RESPONSIBILITY STATEMENT

QUARTER ENDED AT JUNE 30, 2011

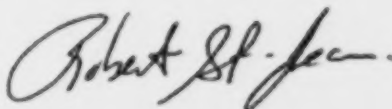
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement.

Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.



Marc Laliberté
President and Chief Executive Officer



Robert St-Jean, CA
Chief Financial and Administration Officer

Montréal, Québec, Canada
August 17, 2011

FINANCIAL STATEMENTS

BALANCE SHEET

As at June 30 (in thousands)	June 30/11 (unaudited)	Dec. 31/10 (unaudited)	Jan. 1/10 (unaudited)
CURRENT ASSETS			
Cash and cash equivalents	\$ 17,634	\$ 76,829	\$ 4,596
Accounts receivable, trade	9,919	7,988	7,581
Prepays, advances on contracts and other receivables	13,063	14,414	10,467
Receivable from the Government of Canada	6,952	15,702	5,182
Derivative financial instruments (NOTE 20)	4,161	3,769	1,497
Materials (NOTE 8)	20,750	21,302	24,592
Asset Renewal Fund (NOTE 11)	15,295	15,295	25,295
	87,774	155,299	79,210
NON-CURRENT ASSETS			
Property, plant and equipment (NOTE 9)	766,136	729,932	673,433
Intangible assets (NOTE 10)	285,361	235,371	74,068
Asset Renewal Fund (NOTE 11)	22,505	25,645	23,120
Accrued benefit asset (NOTE 14)	172,562	159,081	152,655
Derivative financial instruments (NOTE 20)	1,735	880	1,578
	1,248,299	1,150,909	924,854
TOTAL ASSETS	\$ 1,336,073	\$ 1,306,208	\$ 1,004,064
CURRENT LIABILITIES			
Accounts payable and accrued liabilities (NOTE 12)	\$ 101,219	\$ 135,952	\$ 116,529
Provisions (NOTE 13)	18,729	17,138	14,554
Deferred government funding	-	51,000	-
Derivative financial instruments (NOTE 20)	1,065	996	6,699
Deferred revenues	39,415	25,546	24,129
	160,428	230,632	161,911
NON-CURRENT LIABILITIES			
Accrued benefit liability (NOTE 14)	32,909	32,259	31,094
Deferred corporate tax liabilities (NOTE 15)	652	404	-
Derivative financial instruments (NOTE 20)	1,097	205	354
Deferred investment tax credits	711	909	1,302
Other non-current liabilities	557	623	899
	35,926	34,400	33,649
DEFERRED CAPITAL FUNDING (NOTE 16)	1,043,613	954,317	736,746
SHAREHOLDER'S EQUITY			
Share capital (NOTE 17)	9,300	9,300	9,300
Retained earnings	86,806	77,559	62,458
	96,106	86,859	71,758
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 1,336,073	\$ 1,306,208	\$ 1,004,064

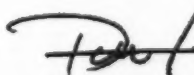
Commitments and Contingencies (Notes 18 and 23, respectively)

The notes are an integral part of the financial statements.

Approved on behalf of the Board,



Eric L. Stefanson, FCA
Director and Chairman of the Audit
and Risk Committee



Paul G. Smith
Director and Chairman of the Board

FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

Period ended June 30 (in thousands)	Three-month periods ended		Six-month periods ended	
	June 30/11 (unaudited)	June 30/10 (unaudited)	June 30/11 (unaudited)	June 30/10 (unaudited)
REVENUES				
Passenger	\$ 64,547	\$ 62,511	\$ 121,614	\$ 116,096
Investment income	418	91	1,116	171
Other	4,178	3,781	8,060	7,787
	69,143	66,383	130,790	124,054
EXPENSES				
Compensation and benefits	51,501	52,424	111,929	108,568
Train operations and fuel	31,318	28,846	60,662	57,401
Stations and property	8,112	8,156	17,700	16,981
Marketing and sales	7,568	7,705	15,140	14,231
Maintenance material	7,431	8,736	16,750	18,737
On-train product costs	3,628	3,559	6,823	6,647
Operating taxes	3,230	3,282	6,352	6,544
Professional services	1,989	1,177	3,461	2,185
Employee future benefits (NOTE 14)	5,993	4,643	11,969	9,259
Amortization and losses on disposal of property, plant and equipment and intangible assets (NOTES 9 AND 10)	12,218	12,066	23,835	23,729
Unrealized loss (gain) on derivative financial instruments	3,710	680	(286)	(111)
Realized loss (gain) on derivative financial instruments	(1,617)	1,700	(2,837)	3,466
Other	5,967	6,994	12,233	14,307
	141,048	139,968	283,731	281,944
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	71,905	73,585	152,941	157,890
Operating funding from the Government of Canada	75,742	80,003	137,457	136,050
Amortization of deferred capital funding (NOTE 16)	9,673	11,630	20,997	22,781
Income before corporate taxes	13,510	18,048	5,513	941
Corporate tax expense (recovery) (NOTE 15)	(3,818)	110	(3,734)	219
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	\$ 17,328	\$ 17,938	\$ 9,247	\$ 722

The notes are an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Period ended June 30 (in thousands)	Three-month periods ended		Six-month periods ended	
	June 30/11 (unaudited)	June 30/10 (unaudited)	June 30/11 (unaudited)	June 30/10 (unaudited)
BALANCE, BEGINNING OF PERIOD	\$ 78,778	\$ 54,542	\$ 86,859	\$ 71,758
Net income and comprehensive income for the period	17,328	17,938	9,247	722
BALANCE, END OF PERIOD	96,106	72,480	96,106	72,480

The notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Period ended June 30 (in thousands)	Three month periods ended		Six month periods ended	
	June 30/11 (unaudited)	June 30/10 (unaudited)	June 30/11 (unaudited)	June 30/10 (unaudited)
OPERATING ACTIVITIES				
Net income and comprehensive income for the period	\$ 17,328	\$ 17,938	\$ 9,247	\$ 722
Adjustments to determine net cash from (used in) operating activities:				
Amortization of property, plant and equipment and intangible assets	12,104	10,286	23,193	21,581
Losses on disposal of property, plant and equipment	213	1,879	840	2,343
Amortization of investment tax credits	(99)	(99)	(198)	(195)
Amortization of deferred capital funding	(9,673)	(11,630)	(20,997)	(22,781)
Deferred corporate taxes	248	0	248	0
Change in fair value of financial instruments (Asset Renewal Fund)	(187)	(23)	(643)	(58)
Unrealized net gain on derivative financial instruments	3,710	680	(286)	(111)
Net change in non-cash working capital items	(11,298)	(7,386)	(47,165)	(4,262)
Change in accrued benefit asset	(11,530)	(5,349)	(13,481)	(5,886)
Change in accrued benefit liability	323	92	650	245
Change in other long-term liabilities	0	0	(66)	0
Net cash (used in) provided by operating activities	1,139	6,388	(48,658)	(8,402)
FINANCING ACTIVITIES				
Capital funding received	43,622	72,380	110,293	136,561
Change in capital funding receivable from the Government of Canada	22,878	(6,880)	16,207	(1,698)
Net cash used in investing activities	66,500	65,500	126,500	134,863
INVESTING ACTIVITIES				
Acquisition of investments in the Asset Renewal Fund	(23,588)	(29,684)	(63,424)	(101,832)
Proceeds from sale and maturity of investments in the Asset Renewal Fund	23,484	29,646	67,207	111,679
Change in Capital accounts payable and accrued liabilities	(12,207)	(1,446)	(30,593)	(12,243)
Acquisition of property, plant and equipment and intangible assets	(54,516)	(49,927)	(110,293)	(105,677)
Proceeds from disposal of property, plant and equipment and intangible assets	10	26	66	36
Net cash used in investing activities	(66,817)	(51,385)	(137,037)	(108,037)
CASH AND CASH EQUIVALENTS				
Increase (decrease) during the period	822	20,503	(59,195)	18,424
Balance, beginning of period	16,812	2,517	76,829	4,596
BALANCE, END OF PERIOD	\$ 17,634	\$ 23,020	\$ 17,634	\$ 23,020
REPRESENTED BY:				
Cash	\$ 6,916	\$ 7,444	\$ 6,916	\$ 7,444
Short-term investments	10,718	15,576	10,718	15,576
	\$ 17,634	\$ 23,020	\$ 17,634	\$ 23,020

The notes are an integral part of the financial statements.



NOTES TO THE INTERIM

FINANCIAL STATEMENTS

AS AT JUNE 30, 2011 (unaudited)

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation was incorporated in 1977 in Canada, under the *Canada Business Corporations Act*. The corporate headquarters is located at 3 Place Ville-Marie, Montreal (Quebec). The Corporation's vision is to be the Canadian leader in service excellence in passenger transportation with a mission to work together to provide travel experiences that anticipate the needs and exceed the expectations of our customers. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is not an agent of Her Majesty and is subject to income taxes.

The Corporation has one operating segment, passenger transportation and related services in Canada. The corporation's activities are considered seasonal since passengers traffic increases significantly during the summer and holiday periods resulting in an increase in revenue for these same periods.

These financial statements were approved and authorised for issue by the Board of Directors on August 17, 2011.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The Corporation adopted International Financial Reporting Standards (IFRS) in accordance IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS were applied was January 1, 2010. In accordance with IFRS, the Corporation has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of December 31, 2009, as required
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Corporation's financial statements were previously prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). Canadian GAAP differs in some areas from IFRS. Note 3 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the balance sheet as at December 31, 2010 and January 1, 2010, and the statement of operations and comprehensive income for the year ended December 31, 2010.

B) FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand in the Corporate financial statements and rounded to the nearest million in the Notes to the financial statements.

3. IMPACT OF FIRST-TIME ADOPTION OF IFRS

As required by IFRS 1 "*First-time adoption of International Financial Reporting Standards*", the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP recorded in retained earnings unless certain exemptions are applied. This note sets out the principles adopted by the Corporation in the preparation of its IFRS opening balance sheet as at 1 January 2010. It also presents divergences with Canadian GAAP previously adopted by the Corporation and their quantified impact on the 2010 opening balance sheet, 2010 net result and the 2010 closing balance sheet.

In preparing its opening balance sheet, the Corporation elected to apply the following exemptions offered by IFRS 1:

I) Employee Benefits (IAS 19)

The Corporation has applied this exemption and has recognized all cumulative actuarial gains and losses as well as the transition asset at the date of transition in the opening retained earnings for all employee benefit plans. The Corporation will however continue to use the corridor approach for actuarial gains and losses occurring after the transition. The Corporation will disclose the amounts required by the IFRS as the amounts are determined for each accounting period prospectively from the date of transition to IFRS.

II) Business combinations (IFRS 3)

The Corporation has elected not to restate business combinations performed prior to 1 January, 2010 and applies IFRS 3 as from this date.

III) Designation of previously recognized financial instruments (IAS 39)

The Corporation has reclassified some financial instruments as available for sale at the date of transition.

The adoption of the IFRS has resulted in significant changes to the balance sheet of the Corporation as described below and the financial statements of the Keewatin Railway Company (KRC) are no longer consolidated into the Corporation's financial statements with IFRS (see Note 3 a) Consolidation of KRC below).

The Corporation has prepared the following reconciliations:
Reconciliation of opening balance sheet as at January 1, 2010

(in millions of dollars)						
	DEC. 31, 2009 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST- MENTS	RECLASSIFI- CATIONS	JAN. 1, 2010 IFRS	NOTE
Cash and cash equivalents	4.8	(0.2)	-	-	4.6	
Accounts Receivable, trade	7.7	(0.1)	-	-	7.6	
Prepays and other receivables	10.6	(0.2)	-	-	10.4	
Receivable from the Government of Canada	6.8	(1.6)	-	-	5.2	
Derivative financial instruments	1.5	-	-	-	1.5	
Materials	24.6	-	-	-	24.6	
Asset Renewal Fund	25.3	-	-	-	25.3	
Total Current Assets	81.3	(2.1)	-	-	79.2	
Property, plant and equipment	523.9	(8.7)	219.8	(61.6)	673.4	b
Intangible assets	9.5	-	3.0	61.6	74.1	c
Asset Renewal Fund	23.1	-	-	-	23.1	
Accrued benefit asset	354.8	-	(202.1)	-	152.7	d
Derivative financial instruments	1.6	-	-	-	1.6	
Deferred corporate tax asset	2.8	-	(2.8)	-	-	h
Total Non-current Assets	915.7	(8.7)	17.9	-	924.9	
Total Assets	997.0	(10.8)	17.9	-	1,004.1	

(in millions of dollars)						
	DEC. 31, 2009 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST- MENTS	RECLASSIFI- CATIONS	JAN. 1, 2010 IFRS	NOTE
Accounts Payable and accrued liabilities	132.3	(2.0)	(0.6)	(13.2)	116.5	e
Provisions	-	-	1.0	13.6	14.6	e
Derivative financial instruments	6.7	-	-	-	6.7	
Deferred revenues	12.0	-	12.1	-	24.1	f
Total Current Liabilities	151.0	(2.0)	12.5	0.4	161.9	
Accrued benefit liability	27.2	-	4.3	(0.4)	31.1	d
Deferred corporate tax liabilities	40.5	-	(40.5)	-	-	h
Derivative financial instruments	0.4	-	-	-	0.4	
Deferred investment tax credits	1.3	-	-	-	1.3	
Other non-current liabilities	1.5	(0.6)	-	-	0.9	
Total Non-current Liabilities	70.9	(0.6)	(36.2)	(0.4)	33.7	
Deferred capital funding	541.1	(8.0)	203.6	-	736.7	g
Share Capital	9.3	-	-	-	9.3	
Contributed Surplus	6.0	-	-	(6.0)	-	
Retained earnings	218.7	(0.2)	(162.0)	6.0	62.5	
Total Shareholder's equity	234.0	(0.2)	(162.0)	-	71.7	
Total Liabilities and Equity	997.0	(10.8)	17.9	-	1,004.1	

Reconciliation of equity as at January 1, 2010

(in millions of dollars)	
Equity - Canadian GAAP as of January 1, 2010	234.0
a) Consolidation -KRC	(0.2)
b) Property, plant and equipment	219.8
c) Intangible assets	3.0
d) Pension and other benefit	(206.4)
e) Provision	(0.4)
f) Deferred revenue	(12.1)
g) Deferred capital funding	(203.6)
h) Deferred corporate tax	37.7
Equity - IFRS as of January 1, 2010	71.8

Reconciliation of balance sheet as at December 31, 2010

(in millions of dollars)						
	DEC. 31, 2010 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST- MENTS	RECLASSIFI- CATIONS	DEC. 31, 2010 IFRS	NOTE
Cash and cash equivalents	77.1	(0.3)	-	-	76.8	
Accounts Receivable, trade	8.1	(0.1)	-	-	8.0	
Prepays and other receivables	14.5	(0.1)	-	-	14.4	
Receivable from the Government of Canada	17.1	(1.4)	-	-	15.7	
Derivative financial instruments	3.8	-	-	-	3.8	
Materials	21.3	-	-	-	21.3	
Asset Renewal Fund	15.3	-	-	-	15.3	
Total Current Assets	157.2	(1.9)	-	-	155.3	
Property, plant and equipment	725.6	(9.5)	224.2	(210.4)	729.9	b
Intangible assets	17.4	-	7.6	210.4	235.4	c
Asset Renewal Fund	25.6	-	-	-	25.6	
Accrued benefit asset	374.9	-	(215.8)	-	159.1	d
Derivative financial instruments	0.9	-	-	-	0.9	
Deferred corporate tax asset	12.2	-	(12.2)	-	-	h
Total Non-current Assets	1,156.6	(9.5)	3.8	-	1,150.9	
Total Assets	1,313.8	(11.4)	3.8	-	1,306.2	

	DEC. 31, 2010 CANADIAN GAAP	KRC NOTE A	IFRS ADJUST- MENTS	RECLASSIFI- CATIONS	DEC. 31, 2010 IFRS	NOTE
Accounts Payable and accrued liabilities	154.7	(1.8)	(0.6)	(16.3)	136.0	e
Provisions	-	-	0.4	16.7	17.1	e
Deferred government funding	51.0	-	-	-	51.0	
Derivative financial instruments	1.0	-	-	-	1.0	
Deferred revenues	12.9	-	12.6	-	25.5	f
Total Current Liabilities	219.6	(1.8)	12.4	0.4	230.6	
Accrued benefit liability	27.3	-	5.4	(0.4)	32.3	d
Deferred corporate tax liabilities	55.0	-	(54.6)	-	0.4	h
Derivative financial instruments	0.2	-	-	-	0.2	
Deferred investment tax credits	0.9	-	-	-	0.9	
Other non-current liabilities	1.1	(0.5)	-	-	0.6	
Total Non-current Liabilities	84.5	(0.5)	(49.2)	(0.4)	34.4	
Deferred capital funding	751.9	(9.0)	211.4	-	954.3	g
Share Capital	9.3	-	-	-	9.3	
Retained earnings	248.5	(0.1)	(170.8)	-	77.6	
Total Shareholder's equity	257.8	(0.1)	(170.8)	-	86.9	
Total Liabilities and Equity	1,313.8	(11.4)	3.8	-	1,306.2	

Reconciliation of equity as of December 31, 2010

Equity - Canadian GAAP as of December 31, 2010	257.8
a) Consolidation - KRC	(0.1)
b) Property, plant and equipment	224.2
c) Intangible assets	7.6
d) Pension and other benefit	(221.2)
e) Provision	0.2
f) Deferred revenue	(12.6)
g) Deferred capital funding	(211.4)
h) Deferred corporate tax	42.4
Equity - IFRS as of December 31, 2010	86.9

Reconciliation of statement of operations and comprehensive income for the year ended December 31, 2010

(in millions of dollars)					
	DEC. 31, 2010 CANADIAN GAAP	KRC NOTE A	IFRS ADJUSTMENTS	DEC. 31, 2010 IFRS	NOTE
REVENUES					
Passenger	258.3	(0.1)	(0.5)	257.7	
Investment income	1.3	-		1.3	
Other	18.3	(2.6)		15.7	
	277.9	(2.7)	(0.5)	274.7	
EXPENSES					
Compensation and benefits	224.2	(1.1)		223.1	
Train operations and fuel	118.5	(0.4)		118.1	
Stations and property	34.3	(0.4)		33.9	
Marketing and sales	29.3	-		29.3	
Maintenance material	39.1	(0.1)		39.0	
On-train product costs	14.7	-		14.7	
Operating taxes	8.9	(0.1)		8.8	
Professional Services	6.3	-		6.3	
Employee benefits	11.5	-	14.7	26.2	d
Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets	58.3	(0.3)	(9.0)	49.0	b/c
Unrealized gain on derivative financial instruments	(7.4)	-		(7.4)	
Realized loss on derivative financial instruments	6.2	-		6.2	
Other	26.0	(0.7)	(0.4)	24.9	
	569.9	(3.1)	5.3	572.1	
OPERATING LOSS BEFORE FUNDING FROM THE GOVERNMENT OF CANADA AND CORPORATE TAXES	292.0	(0.4)	5.8	297.4	
Operating funding from the Government of Canada	261.5	-	-	261.5	
Amortization of deferred capital funding	57.1	(0.3)	(7.8)	49.0	g
Income (loss) before corporate taxes	26.6	0.1	(13.6)	13.1	
Corporate tax expense	4.8	-	(4.8)	-	h
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	21.8	0.1	(8.8)	13.1	

A) CONSOLIDATION OF KRC

Under Canadian GAAP the Keewatin Railway Company (KRC) was designated as a variable interest entity (VIE) and therefore the financial statements of the KRC were consolidated into the Corporation's financial statements. Under IFRS, the KRC financial statements will no longer be consolidated in the Corporation's financial statements since the IFRS standards are based on control criteria rather than the concept of a VIE. The corporation has concluded under IFRS that it does not control the operations of the KRC therefore should not consolidate their financial statements under IFRS.

B) PROPERTY, PLANT AND EQUIPMENT

Under IFRS the amortization of property plant and equipment is required to be calculated separately for significant components of property, plant and equipment items if these components have significantly different useful lives. This requirement led to the restatement of the property, plant and equipment in the opening IFRS balance sheet as at 1 January 2010. The result of this restatement is a significant increase in the net carrying amount of rolling stock, building and rail infrastructure. The accumulated amortization of assets in the rolling stock, maintenance buildings, stations and facilities as well as rail infrastructure categories was reduced as a result of the recognition of various asset components and the related adjustments of their useful lives.

In the process of reclassifying its asset into components, the Corporation also reclassified certain assets to other more appropriate categories based on the nature of these assets. An example of this would be the reclassification of rail infrastructure used by the maintenance centers from the maintenance center category to the rail infrastructure category.

Reconciliation of Property Plant and equipment at transition date:

in millions of dollars		January 1, 2010
Property, plant and equipment CND GAAP		523.9
KRC		(8.7)
Reclassification to intangible		(61.6)
Net change in original cost from capitalization and decapitalization of certain assets		10.5
Reduction of accumulated amortization		209.3
Property, plant and equipment - IFRS		673.4

Reconciliation of Property Plant and equipment as at December 31, 2010:

in millions of dollars		December 31, 2010
Property, plant and equipment CND GAAP		725.6
KRC		(9.5)
Reclassification to intangible		(210.4)
Net change in original cost from capitalization and decapitalization of certain assets		12.8
Reduction of accumulated amortization		211.4
Property, plant and equipment - IFRS		729.9

C) INTANGIBLE ASSETS

The corporation has also established that investments in rail infrastructure that are owned by other operating railways would be more appropriately classified as intangible assets since these investments result in enhanced passenger train operations but cannot be considered as a physical assets for the Corporation since the ownership remains with the other operating railways.

These intangible assets are being amortized over their estimated useful lives of approximately 38 years instead of the term of the train service agreements with the other operating railways which are significantly shorter.

Reconciliation of Intangible Assets at transition date:

(in millions of dollars)		January 1, 2010
Intangible Assets - CND GAAP		9.5
Reclassification from property, plant and equipment		61.6
Reduction of accumulated amortization		3.0
Intangible Assets - IFRS		74.1

Reconciliation of Intangible Assets as at December 31, 2010:

(in millions of dollars)		December 31, 2010
Intangible Assets - CND GAAP		17.4
Reclassification from property, plant and equipment		210.4
Reduction of accumulated amortization		7.6
Intangible Assets - IFRS		235.4

D) EMPLOYEE BENEFITS

i) Accrued benefit Assets (Pension Plans)

The Corporation has applied the employee benefit exemption and has recognized at the transition date the unrecognized actuarial gains and losses as at December 31, 2009 under Canadian GAAP of \$321.5 million despite the fact that VIA will continue to apply the corridor method on a prospective basis under IFRS. The transition asset as at December 31, 2009 of \$120.9 million was also recorded in the opening retained earnings.

ii) Accrued benefit liability

As a result of the application of the exemption, the Corporation has increased its liability by \$4.3 million upon recognition of the transition liability of \$2.6 million, a past service cost of \$0.2 million and an actuarial gain of \$1.5 million at the date of transition.

E) PROVISIONS

IFRS requires that provisions be presented separately on the face of the balance sheet. As such, at January 1, 2010, \$13.2 million (December 31, 2010 - \$16.3 million) relating to amounts provided for environmental, litigation and restructuring provision has been reclassified from Accounts payable and accrued liabilities to Provisions on the Balance Sheet.

F) DEFERRED REVENUE – VIA PRÉFÉRENCE

"IFRIC 13 Customer Loyalty Programs" provides guidance on the accounting treatment for reward programs such as the VIA Preference Program which allows customers to accumulate points that can be exchanged against train tickets. Under Canadian GAAP, the Corporation had recorded the incremental costs related to train tickets issued to customers using their award points.

Under IFRS the fair value of points accumulated on the train travel is recognized as deferred revenue. The fair value of each point has been determined as the value for which the point could be sold separately based on the average yield, class of travel and region of travel. A provision of \$0.6 million under Canadian GAAP was reversed and deferred revenue of \$12.1 million has been recorded at transition date.

G) DEFERRED CAPITAL FUNDING

The deferred capital funding is adjusted for an amount equal to the adjustment made to the amortization of Property, plant and equipment and intangible assets (note 3 b) that were financed by capital funding from the Government of Canada.

H) DEFERRED CORPORATE TAX

The accounting treatment of deferred corporate tax using the IFRS is similar to the treatment under Canadian GAAP. The decrease in the deferred corporate tax amount is mainly caused by the reduction of the Accrued benefit asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Corporation are summarized as follows:

A) FUNDING FROM THE GOVERNMENT OF CANADA

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss (See Note 7 for reconciliation). The funding is determined on the basis of operating expenses less commercial revenues excluding unrealized gains and losses on financial instruments, employee future benefits and non-cash transactions relating to property, plant and equipment, intangible assets and deferred corporate taxes, and is based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable property, plant and equipment and intangible assets is recorded as deferred capital funding on the Balance Sheet and is amortized from the acquisition date on the same basis and over the same periods as the related property, plant and equipment and intangible assets. Upon disposal of the funded depreciable property, plant and equipment and intangible assets, the Corporation recognizes into income all remaining deferred capital funding related to the relevant assets. Funding for non-depreciable property, plant and equipment is recorded as retained earnings.

B) CASH EQUIVALENTS

Cash equivalents investments include bankers' discount notes and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less.

C) ASSET RENEWAL FUND

Asset Renewal Fund investments include Provincial treasury bills and/or promissory notes and bankers' acceptances which may be liquidated promptly and have original maturities of three months or less. It also includes Master Asset Vehicle (MAV) notes which may not be liquidated in the near future and have legal maturities from 2013 to 2056. Changes in fair value are recorded in investment income.

D) REVENUE RECOGNITION

The consideration, received from the sale of tickets is allocated between the points attributed under the loyalty programs (VIA Préférence) and the passenger transportation service based on their relative fair values. The deferred revenue related to the loyalty program points are recorded as revenue based on the number of points that have been redeemed in exchange for train tickets, relative to the total number of points that are expected to be redeemed in exchange for train tickets. The revenue is recorded as deferred revenue until the transportation has been provided or in the case of the points when these are redeemed for train tickets and the service has been provided. Deferred revenue is also recorded as revenue when it is no longer considered probable that the related loyalty program points will be redeemed. Investment income and other revenues that include third party revenues are recorded as they are earned. The change in fair value of the financial instruments held for trading other than a derivative financial instrument is recorded in investment income.

E) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the end of the reporting period. Gains and losses resulting from the changes in exchange rates are reflected in the Statement of Operations and Comprehensive Income.

Non-monetary balance sheet items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

F) MATERIALS

Materials, consisting primarily of items used for the maintenance of rolling stock, are valued at the lower of weighted average cost and net realizable value.

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated amortization and any accumulated impairment losses. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are amortized over their respective useful lives.

Maintenance and repair costs are recognised as follows:

i) Rolling stock:

Maintenance expenses incurred during the useful life of equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses.

The cost of periodic major overhaul programs are capitalised as a separate component and amortized over their useful lives.

ii) Fixed installations:

Maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses;

The costs of periodic major building repair programmes are capitalized as a separate component amortized over its expected useful life.

Retired property, plant and equipment are written down to their estimated recoverable amount.

Amortization of property, plant and equipment is calculated on a straight-line basis, from the date they are available for use, at rates sufficient to amortize the cost of property, plant and equipment, less their residual value, over their estimated useful lives except for leases of buildings and stations where the amortization period is the shorter of the lease term or its estimated useful life. The estimated useful lives are as follows:

Rolling stock	10 to 50 years
Maintenance buildings	15 to 50 years
Stations and facilities	10 to 50 years
Owned Infrastructure	10 to 50 years
Leasehold improvements	10 to 40 years
Machinery and equipment	5 to 15 years
Computer hardware	3 years
Other property, plant and equipment	15 years

The estimated useful life, amortisation method and residual value are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. No amortization is provided for projects in progress and retired property, plant and equipment.

H) INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

For internally-generated intangible assets, the expenditure on research activities is recognised as an expense in the period in which it is incurred and the development expense from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to income in the period in which it is incurred.

The Corporation's intangible assets have a finite useful life and are amortized over their useful life according to the straight-line method over the following periods:

Internally generated software	3 years
Rights of access to rail infrastructure	38 years
Other Intangible assets	20 to 25 years

I) IMPAIRMENT

In accordance with IAS 36, "Impairment of Assets", the Corporation reviews at each balance sheet date whether there is any indication (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators) of impairment of tangible and intangible assets. If such an indication exists, the recoverable value of the asset is estimated in order to determine the amount, if any, of the impairment. The recoverable value is the higher of the following values: the fair value reduced by selling costs and value in use. The value in use is determined using discounted cash flow assumptions established by management.

When it is not possible to estimate the recoverable value for an individual asset, this asset is grouped together with other assets which form cash generating unit (CGU) and the Corporation measures the recoverable amount of the CGU.

When the recoverable value of an asset is lower than its carrying value, an impairment charge is recognized.

J) PROVISIONS

Provisions including provisions for environmental issues, legal litigation, travel credit, ticket refunds and restructuring are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Restructuring costs presented in the Statement of Operations and Comprehensive Income primarily consist of employee departure costs.

The environmental provision includes estimated costs to meet Government standards and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Corporation's prior experience.

K) CORPORATE TAXES

The Corporation utilizes the asset and liability method of accounting for corporate taxes under which deferred corporate tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred corporate tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred corporate tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Deferred corporate tax assets are recognized to the extent that realization is considered probable.

L) INVESTMENT TAX CREDITS

Investment tax credits are recognized when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. They are amortized over the estimated useful lives of the related property, plant and equipment. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of property, plant and equipment.

M) EMPLOYEE FUTURE BENEFITS

The Corporation accrues obligations under its employee future benefit plans.

The cost of pension and other employee future benefits earned by employees is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

The cost of plan amendments resulting in past service cost is expensed in the period of the amendment.

For the pension plans, the excess of the accumulated net actuarial gain or loss over 10 per cent of the greater of the accumulated benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service lives of the active employee groups which is, in most cases, estimated to be 12 years.

The Corporation's obligations for worker's compensation benefits are based on known awarded disability and survivor pensions and other potential future awards with respect to accidents that occurred up to the fiscal year-end. The Corporation is self-insured. The actuarial determination of these accrued benefit obligations uses the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions. Management's best estimate also takes into account the experience and assumptions of provincial workers' compensation boards. Any actuarial gains and losses are recognised in income in the period in which they arise.

The Corporation's obligations for the post-employment and post-retirement benefit plans are calculated using the projected unit credit method. This method incorporates management's best estimate of cost escalation as well as demographic and other financial assumptions.

N) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value at the date they are originated. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: fair value through profit and loss, loans and receivables, available for sale or other financial liabilities. The Corporation derecognised a financial asset or liability when the contractual rights or obligation to the cash flows from the asset or liability expire.

i) Financial assets and liabilities at fair value through profit and loss (FVTPL)

Financial instruments are classified as FVTPL when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

The Corporation has classified cash, bank balances and derivative financial instruments as FVTPL. Instruments in MAV notes that include embedded derivatives have been designated as FVTPL.

Financial assets and financial liabilities recorded at FVTPL are measured at fair value with changes in those fair values recognized in income. Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement-date.

ii) Loans and receivables (L&R)

The L&R classification includes trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost, using the effective interest rate method, less any impairment. The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at the original invoice amount less allowance for doubtful receivables.

iii) Available-for-sale (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Short term investments and investments in the Asset Renewal Fund not designated at FVTPL have been classified as available for sale. AFS financial assets are recognized at fair value in subsequent periods to the extent that this can be reliably measured. Fluctuations in fair value between balance sheet dates are recognized in other comprehensive income.

iv) Other financial liabilities

Other financial liabilities represent liabilities that are not classified as FVTPL. They are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Where the time value of money is not material due to their short-term nature, accounts payable are carried at the original invoice amount.

v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

An impairment loss is recognized in profit and loss and calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale investment is recognized in other comprehensive income.

O) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments such as swaps and certain forward foreign exchange contracts are utilized by the Corporation in the management of its exposure to changes in fuel prices and the value of the U.S. dollar of at least 50 per cent and up to 80 per cent of its consumption of fuel. The Corporation does not enter into derivative financial instruments for trading or speculative purposes. The Corporation does not currently apply hedge accounting on these derivative financial instruments.

Forward foreign exchange contracts are also utilized by the Corporation in the management of its exposure to the changes in value of the U.S. dollar related to the purchase of materials from the U.S. as part of a major capital project to refurbish some of its locomotive fleet.

The Corporation's derivative financial instruments are classified as FVTPL. Changes in the fair value of derivative financial instruments are recorded in unrealized loss (gain) on derivative financial instruments.

Derivative financial instruments with a positive fair value are reported as derivative financial instrument assets and derivatives with a negative fair value are reported as derivative financial instruments liabilities.

P) NON-MONETARY TRANSACTIONS

Non-monetary transactions are recorded at the estimated fair value of the goods or services received or the estimated fair value of the services given, whichever is more reliably determinable. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the period when goods or services are provided by third parties.

5. SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. These estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

A) USEFUL LIVES OF DEPRECIABLE ASSETS

Management reviews the useful lives of depreciable assets annually. At June 30, 2011 management assesses that the useful lives represent the expected utility of the assets to the Corporation.

B) VIA PRÉFÉRENCE PROGRAM

The "VIA Préférence" program allows members to acquire "award points" as they travel on the train. These award points entitle members to free travel on our trains. In determining the fair value of the award points, the Corporation takes into consideration the probability of the awards being converted into tickets. The estimated probabilities are based on historical information on point redemption and may not reflect the actual redemption rate in the future. As such, the amount allocated between the transportation service and the award points may have been significantly different if different probability estimates had been used.

C) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation uses valuation techniques in measuring the fair value of its Master Asset Vehicle (MAV), where active market quotes are not available. Details of the assumptions used are given in the notes regarding the Asset Renewal fund (see Note 11). In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

D) DEFINED BENEFIT LIABILITY

Measurement of pension obligation is based on the projected unit credit method prescribed by IAS 19 for defined benefit pension plans. The measurement of pension provisions within the balance sheet is based on a number of assumptions.

They include, in particular, assumptions about long-term salary and average life expectancy. The assumptions on salary reflect expected long-term growth in earnings whereas assumptions on average life expectancy are based on recognised mortality tables.

The interest rate used for discounting future payment obligations is the market rate for high quality corporate bonds with a comparable time to maturity. The expected long-term rate of return on existing plan assets is also determined based on the fund structure, taking expected return and volatility of each asset class into account.

Changes in estimates and assumptions from year to year and deviations from actual annual effects are reflected in actuarial gains/losses and are, if their cumulative amount exceeds 10 per cent of the higher of obligation and plan assets, amortised pro rata via the income statement over the average remaining period of service of active members.

The 10 per cent corridor rule prevents fluctuations in the balance sheet and the income statement from year to year.

E) CORPORATE TAXES

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

6. FUTURE ACCOUNTING CHANGES

IFRS 9 Financial Instruments deals with classification and measurement standards for financial assets and liabilities. The effects of IFRS 9, which is applicable from 1 January 2013, on the net assets, financial and earnings position and the presentation in the financial statements are currently under review.

7. RECONCILIATION OF NET RESULTS OF OPERATIONS TO GOVERNMENT FUNDING BASIS

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Operations and Comprehensive Income in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on an I.F.R.S. basis. These differences are outlined below:

(in millions of dollars)	Three months ended on June 30		Six months ended on June 30	
	2011	2010	2011	2010
Net income and comprehensive income for the period	17.3	17.9	9.2	0.7
Items not requiring (not providing) operating funds:				
Amortization and losses on disposal of property, plant and equipment and intangible assets	12.2	12.1	23.8	23.7
Amortization of deferred capital funding	(9.7)	(11.6)	(21.0)	(22.8)
Employee future benefits to be funded in subsequent years	(11.2)	(5.3)	(12.8)	(5.6)
Deferred corporate taxes expense	0.3	-	0.3	-
Unrealized losses (gain) on derivative financial instruments	3.7	0.7	(0.3)	(0.1)
Adjustment for accrued compensation	6.3	(3.7)	0.8	(0.5)
Increase in investment fair value	(0.2)	-	(0.6)	(0.1)
Other	0.2	-	0.6	0.2
Operating funding surplus (deficit) for the period	18.9	10.1	-	(4.5)

8. MATERIALS

The cost of its materials recorded as an expense during the period of six months ended on June 30, 2011 amounted to \$16.2 million (six months ended on June 30, 2010: \$16.5 million). As at June 30, 2011 the Corporation has no significant expense related to write-down of the value of its materials for 2011 and 2010.

9. PROPERTY, PLANT AND EQUIPMENT

In millions of dollars					
	JAN. 1, 2011	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICA- TIONS	JUNE 30, 2011
Cost:					
Land	8.5	-	-	-	8.5
Rolling stock	803.6	-	(11.1)	19.3	811.8
Maintenance buildings	134.4	-	-	2.4	136.8
Stations and facilities	55.9	-	-	1.6	57.5
Owned infrastructures	133.2	-	-	14.5	147.7
Leasehold improvements	71.5	-	-	1.3	72.8
Machinery and equipment	35.9	-	-	0.1	36.0
Computer hardware	11.1	-	-	0.4	11.5
Other property, plant and equipment	22.2	-	-	0.3	22.5
Project in progress	91.0	57.4	-	(39.9)	108.5
Retired assets	0.1	-	-	-	0.1
Total cost	1,367.4	57.4	(11.1)	-	1,413.7
Accumulated amortization and impairments:					
Rolling stock	382.9	12.8	(10.2)	-	385.5
Maintenance buildings	79.7	2.0	-	-	81.7
Stations and facilities	27.3	1.1	-	-	28.4
Owned infrastructures	47.6	1.5	-	-	49.1
Leasehold improvements	46.5	1.4	-	-	47.9
Machinery and equipment	25.8	0.7	-	-	26.5
Computer hardware	8.5	0.6	-	-	9.1
Other property, plant and equipment	19.2	0.2	-	-	19.4
Total accumulated amortization and impairments	637.5	20.3	(10.2)	-	647.6
Total net carrying amount	729.9	37.1	(0.9)	-	766.1

	JAN. 1, 2010	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICA- TIONS	DEC. 31, 2010
Cost:					
Land	6.0	-	-	2.5	8.5
Rolling stock	782.7	-	(22.4)	43.3	803.6
Maintenance buildings	131.5	-	-	2.9	134.4
Stations and facilities	47.6	-	-	8.3	55.9
Owned infrastructures	115.0	-	-	18.2	133.2
Leasehold improvements	65.8	-	-	5.7	71.5
Machinery and equipment	31.9	-	(0.2)	4.2	35.9
Computer hardware	8.8	-	-	2.3	11.1
Other property, plant and equipment	21.4	-	-	0.8	22.2
Project in progress	77.7	101.5	-	(88.2)	91.0
Retired assets	0.3	-	(0.2)	-	0.1
Total cost	1,288.7	101.5	(22.8)	-	1,367.4
Accumulated amortization and impairments:					
Rolling stock	375.7	28.4	(21.2)	-	382.9
Maintenance buildings	76.1	3.6	-	-	79.7
Stations and facilities	25.2	2.1	-	-	27.3
Owned Infrastructures	43.6	4.0	-	-	47.6
Leasehold improvements	44.0	2.5	-	-	46.5
Machinery and equipment	24.1	1.8	(0.1)	-	25.8
Computer hardware	7.7	0.8	-	-	8.5
Other property, plant and equipment	18.9	0.3	-	-	19.2
Total accumulated amortization and impairments	615.3	43.5	(21.3)	-	637.5
Total net carrying amount	673.4	58.0	(1.5)	-	729.9

Projects in progress primarily consist of rolling stock, improvements to infrastructure and stations.

The amortization expense of property, plant and equipment was \$ 20.3 million for the six month ended June 30 in 2011 (six month ended June 30, 2010: \$ 19.4 million).

10. INTANGIBLE ASSETS

(in millions of dollars)					
	JAN. 1, 2011	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICA- TIONS	JUNE 30, 2011
Cost:					
Internally generated software	51.2	-	-	2.6	53.8
Right of access to rail infrastructure	75.5	-	-	15.8	91.3
Other intangible	3.5	-	-	-	3.5
Project in progress	190.9	52.9	-	(18.4)	225.4
Total cost	321.1	52.9	-	-	374.0
Accumulated amortization and impairments:					
Internally generated software	43.3	1.9	-	-	45.2
Right of access to rail infrastructure	41.7	1.0	-	-	42.7
Other intangible	0.7	-	-	-	0.7
Total accumulated amortization and impairments	85.7	2.9	-	-	88.6
Total net carrying amount	235.4	50.0			285.4

(in millions of dollars)					
	JAN. 1, 2010	ADDITIONS	RETIREMENT AND DISPOSALS	RECLASSIFICA- TIONS	DEC. 31, 2010
Cost:					
Internally generated software	44.6	-	-	6.6	51.2
Right of access to rail infrastructure	74.8	-	-	0.7	75.5
Other intangible	3.5	-	-	-	3.5
Project in progress	31.0	167.2	-	(7.3)	190.9
Total cost	153.9	167.2	-	-	321.1
Accumulated amortization and impairments:					
Internally generated software	39.6	3.7	-	-	43.3
Right of access to rail infrastructure	39.7	2.0	-	-	41.7
Other intangible	0.5	0.2	-	-	0.7
Total accumulated amortization and impairments	79.8	5.9	-	-	85.7
Total net carrying amount	74.1	161.3			235.4

The amortization expense of intangible assets for the period of six month ended on June 30, 2011 was \$2.9 million (six months ended June 30, 2010: \$2.2 million).

11. ASSET RENEWAL FUND

A) ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of Canada Secretariat to set aside funds in a manner which ensures that these funds are retained for future capital projects. However, the Treasury Board of Canada Secretariat could approve the use of the Asset Renewal Fund to finance operating deficits.

The investments in the Asset Renewal Fund include the following:

in millions of dollars	JUNE 30, 2011	DEC. 31, 2010	JAN. 1, 2010
	CARRYING VALUE AND FAIR VALUE	CARRYING VALUE AND FAIR VALUE	CARRYING VALUE AND FAIR VALUE
Bankers' acceptances	24.2	28.2	20.3
Provincial Treasury bills and /or promissory notes	8.1	7.8	23.6
Master Asset Vehicle (MAV) notes	5.5	4.9	4.5
Balance at end of period	37.8	40.9	48.4
Less: Current portion	15.3	15.3	25.3
Non-current portion	22.5	25.6	23.1

The Treasury Board of Canada Secretariat has authorized the Corporation to use up to \$15.3 million (December 31, 2010: \$15.3 million) of the Asset Renewal Fund to meet future working capital requirements. This amount is presented in the current portion of the Asset Renewal Fund.

The weighted average effective rate of return on short-term investments excluding MAV notes as at June 30, 2011 was 1.22 per cent (December 31, 2010: 1.09 per cent). The weighted average term to maturity excluding MAV notes as at June 30, 2011 is five months (December 31, 2010: two months).

The fair value of short-term investments is based on the current bid price at the Balance Sheet date, except for the MAV notes as described in Note 11 c).

Apart from the MAV notes, the Asset Renewal Fund is invested in 20 short-term instruments (December 31, 2010: 14) that have a rating of "R-1 low" or higher. Diversification in the short-term instruments is achieved by limiting to 10 per cent or less the percentage of the market value of the Asset Renewal Fund assets invested in instruments of a single issuer.

The Corporation is subject to credit risk from its holdings in the Asset Renewal Fund. The Corporation minimizes its credit risk by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and to the Corporation's Asset Renewal Fund Investment Policy, which requires that funds be invested in high quality financial instruments.

B) CHANGES IN THE ASSET RENEWAL FUND

The changes in the closing balance of the Asset Renewal Fund resulted from the following movements during the period:

(in millions of dollars)		JUNE 30, 2011	DEC 31, 2010
Balance at beginning of period		40.9	48.4
Proceeds from sale or lease of surplus assets		0.2	1.5
Investment income		0.2	0.2
Change in fair value		0.6	0.8
Less: Cash drawdown during the year		(4.1)	(10.0)
Balance at end of period		37.8	40.9

C) MASTER ASSET VEHICLE (MAV) NOTES

On March 17, 2008, the Pan-Canadian Investors Committee (the "Committee") for Asset Backed Commercial Paper (ABCP) filed proceedings for a plan of compromise and arrangement (the "Plan") under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") with the Ontario Superior Court. At the meeting of ABCP note holders on April 25, 2008, note holders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to the appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. On this date, the Corporation received \$8.6 million in face value of restructured long-term amortizing floating rate notes in exchange for \$8.7 million face value of original ABCP held previously that had been illiquid since the market disruptions of August 2007.

The new notes, now referred to as Master Asset Vehicle (MAV) notes, have legal maturities ranging from 2013 to 2056 and have remained somewhat illiquid since issued. In the absence of a truly liquid secondary market, management has developed a discounted cash flow valuation model to estimate the fair value of the MAV notes. The valuation model incorporates assumptions for interest rate, required market yields and effective maturities, some of which are derived from observable market indicators. In the second quarter of 2011, \$0.1 million of capital was received (\$0.9 million since the restructuring), since restructuring a \$0.3 million notional loss, leaving an outstanding face value as at June 30, 2011 of \$7.4 million. The estimated fair value of the outstanding notes is \$5.5 million as at June 30, 2011 (December 31, 2010: \$4.9 million) representing 75 per cent of their face value.

The Corporation's estimated fair value for its MAV notes is subject to significant risks and uncertainties, including the timing and amount of future cash flows, the potential for deterioration in the credit quality of the underlying assets and financial instruments as well as changes in interest rates and credit spreads. Accordingly, the Corporation's assessment of the fair value of its MAV notes holdings could change significantly in the future.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Accounts payable and accrued liabilities balance includes the following:

(in millions of dollars)	JUNE 30, 2011	DEC. 31, 2010
Accrued liabilities	1.1	1.5
Wages payable and accrued	39.2	36.9
Capital payables	22.9	53.0
Trade payables	29.2	36.0
Capital tax, income tax and other taxes payable	8.8	8.6
Other	-	-
	101.2	136.0

13. PROVISIONS

The provision balance includes:

(in millions of dollars)	Jan 1, 2011	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	June 30, 2011
Environmental costs (Note a)	0.8	-	-	-	-	0.8
Litigation and contractual disputes (Note b)	15.2	1.4	-	-	-	16.6
Other	1.1	0.2	-	-	-	1.3
Total provisions	17.1	1.6	-	-	-	18.7

(in millions of dollars)	Jan 1, 2010	Charge (used)	Reversal (used)	Reversal (not used)	Other movements	Dec 31, 2010
Environmental costs (Note a)	0.8	-	-	-	-	0.8
Litigation and contractual disputes (Note b)	12.0	3.2	-	-	-	15.2
Other	1.8	-	(0.7)	-	-	1.1
Total provisions	14.6	3.2	(0.7)	-	-	17.1

A) ENVIRONMENTAL COSTS

A new environmental law came into force in June 2008 for Petroleum Storage Equipment that requires registration of existing and new tank systems. The Corporation has assessed the impact and a preliminary action plan has been prepared to ensure compliance with the law by 2012. The Corporation has made a provision of \$0.8 million for environmental costs, which is recorded in Provisions.

B) LITIGATION AND CONTRACTUAL DISPUTES

The Corporation began a restructuring of its labour force in 1997 which resulted in the elimination of a number of positions. The changes became subject to various Canadian Industrial Relations Board (CIRB) decisions, mediations and arbitrations.

In May 2003, the CIRB rendered a decision directing the Corporation to pay back wages under certain circumstances to former conductors. The Supreme Court of Canada decided not to grant the Corporation leave to appeal a Federal Court of Appeal ruling supporting the decision of the CIRB.

The Corporation is waiting for the final ruling from the arbitrator. The Corporation has made a provision in its Financial Statements.

The Corporation is also subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies is not expected to have a material adverse effect on the financial position of the Corporation.

14. EMPLOYEE FUTURE BENEFITS

The Corporation provides a number of funded defined benefit pension plans as well as unfunded post retirement and post-employment benefits that include life insurance, health coverage self insured workers' compensation benefits and to all its permanent employees. The actuarial valuations for employee future benefits are carried out by external actuaries who are members of the Canadian Institute of Actuaries.

DEFINED BENEFIT PENSION PLANS

The defined benefit pension plans are based on years of service and final average salary of the employee's best five consecutive calendar years up to retirement.

Pension benefits increase annually by 50 per cent of the increase in the Consumer Price Index in the 12 months ending in December subject to a maximum increase of 3 per cent in any year.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

The actuarial valuation of the Supplemental Executive Retirement Plan is carried out annually. The latest actuarial valuation was carried out as at December 31, 2010.

The actuarial valuation of the Supplemental Retirement Plan for management employees (SRP), with respect to retired members, is carried out annually. The latest actuarial valuation was carried out as at December 31, 2010. The latest actuarial valuation for active members, of the SRP was carried out as at December 31, 2010, and the next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

OTHER BENEFIT PLANS

The latest actuarial valuation for the post-retirement unfunded plan was carried out as at May 1, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at May 1, 2013.

The latest actuarial valuation for the post-employment unfunded plan was carried out as at December 31, 2010.

The latest actuarial valuation for the self-insured workers' compensation was carried out as at December 31, 2010. The next actuarial valuation will be carried out subsequent to year-end with a measurement date as at December 31, 2011.

Based on these actuarial valuations and projections to June 30, the summary of the principal valuation results, in aggregate, is as follows:

(in millions of dollars)	PENSION PLANS		OTHER BENEFIT PLANS	
	JUNE 30, 2011	DECEMBER 31, 2010	JUNE 30, 2011	DECEMBER 31, 2010
ACCRUED BENEFIT OBLIGATION:				
Balance at beginning of the period	1,593.5	1,328.3	34.5	31.2
Current service cost	12.8	18.0	2.6	5.2
Interest cost	43.3	87.6	1.0	1.8
Plan amendment	-	-	0.6	0.8
Employee contributions	5.3	10.1	-	-
Benefits paid	(51.1)	(89.9)	(3.2)	(7.6)
Net transfer in	-	-	-	-
Actuarial losses	-	233.6	-	3.1
Plan curtailment	-	5.8	-	-
Balance at end of the period	1,603.8	1,593.5	35.5	34.5
FAIR VALUE OF PLAN ASSETS:				
Balance at beginning of the period	1,588.1	1,481.0	-	-
Expected return on plan assets	48.4	93.9	-	-
Actuarial gain	-	69.2	-	-
Employer contributions	21.7	23.8	3.2	7.6
Employee contributions	5.3	10.1	-	-
Benefits paid	(51.1)	(89.9)	(3.2)	(7.6)
Net transfer in	-	-	-	-
Balance at end of the period	1,612.4	1,588.1	-	-

The percentage of the fair value of the total pension plan assets by major category as follows:

Asset category	JUNE 30, 2011	DEC. 31, 2010	JAN. 1, 2010
Equity securities (public market)	50.6%	51.2%	50.7%
Fixed income securities (public market)	42.7%	42.1%	43.3%
Private equity, infrastructure and other	6.7%	6.7%	6.0%
	100.0%	100.0%	100.0%

	THREE MONTH PERIOD ENDING ON		SIX MONTH PERIOD ENDING ON	
	JUNE 30, 2011	JUNE 30, 2010	JUNE 30, 2011	JUNE 30, 2010
COMPONENTS OF PENSION COST				
Current service cost	6.4	4.5	12.8	9.0
Interest cost	21.7	21.8	43.3	43.6
Expected return on plan assets	(24.2)	(23.4)	(48.4)	(46.7)
Actuarial loss recognized in the period	0.3	-	0.6	-
Vested Past service cost	-	-	-	-
Total pension cost	4.2	2.9	8.3	5.9

	THREE MONTH PERIOD ENDING ON		SIX MONTH PERIOD ENDING ON	
	JUNE 30, 2011	JUNE 30, 2010	JUNE 30, 2011	JUNE 30, 2010
COMPONENTS OF OTHER BENEFIT PLANS COST				
Current service cost	1.3	1.3	2.6	2.6
Interest cost	0.4	0.4	0.9	0.8
Expected return on plan assets	-	-	-	-
Actuarial loss recognized in the period	-	-	-	-
Vested Past service cost	0.1	-	0.2	-
Total other benefit plans costs	1.8	1.7	3.7	3.4
Total pension and other benefits costs	6.0	4.6	12.0	9.3

	PENSIONS PLANS			OTHER BENEFIT PLANS		
	JUN 30, 2011	DEC. 31, 2010	JAN 1, 2010	JUN 30, 2011	DEC. 31, 2010	JAN. 1, 2010
AMOUNTS RECOGNIZED IN THE BALANCE SHEET						
Benefit obligation	1,603.8	1,593.5	1328.3	(35.5)	(34.5)	(31.1)
Fair value of plan assets	1,612.4	1,588.1	1481.0	-	-	-
Surplus (deficit)	8.6	(5.4)	152.7	(35.5)	(34.5)	(31.1)
Unamortized past service costs	-	-	-	1.0	0.5	-
Unamortized net actuarial loss	164.0	164.5	-	1.6	1.7	-
Net asset (liability)	172.6	159.1	152.7	(32.9)	(32.3)	(31.1)

	PENSION PLANS		OTHER BENEFIT PLANS	
	JUNE 30, 2011	DEC. 31, 2010	JUNE 30, 2011	DEC. 31, 2010
Expected employer contribution for the next year	51.0	24.1	6.6	6.5

(in millions of dollars)	PENSION PLANS		OTHER BENEFIT PLANS	
	JUNE 30, 2011	DECEMBER 31, 2010	JUNE 30, 2011	DECEMBER 31, 2010
WEIGHTED-AVERAGE OF SIGNIFICANT ASSUMPTIONS:				
Accrued benefit obligation:				
Discount rate	5.50%	5.50%	5.50%	4.75%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Rate of pension increase	1.25%	1.25%	-	-
Expenses:				
Discount rate	5.50%	6.50%	4.75%	5.25%
Expected long-term rate of return on plan assets	6.25%	6.50%	-	-
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Rate of pension increase	1.25%	1.25%	-	-
Actual return on plan assets	-	11.30%	-	-
Assumed health care cost trend rates as at The end of the period:				
Initial health care cost trend rate	-	-	7.47%	7.43%
Cost trend rate declines to	-	-	4.50%	4.37%
Year ultimate rate is reached	-	-	2025	2025

SENSITIVITY ANALYSIS

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2011:

(in thousands of dollars)	INCREASE	DECREASE
Total service and interest cost	8	(7)
Accrued benefit obligation	221	(192)

15. CORPORATE TAXES

The corporate tax (recovery) expense of the Corporation consists of the following:

(in millions of dollars)	THREE MONTH PERIOD ENDING ON		SIX MONTH PERIOD ENDING ON	
	JUNE 30, 2011	JUNE 30, 2010	JUNE 30, 2011	JUNE 30, 2010
Current corporate tax (recovery) expense	(4.0)	(0.3)	(3.9)	0.2
Deferred corporate tax expense	0.2	0.4	0.2	-
Corporate tax (recovery) expense	(3.8)	0.1	(3.7)	0.2

The overall corporate tax recovery for the period differs from the amount that would be computed by applying the combined Federal and provincial statutory income tax rates of 26.12 per cent (June 30 2010: 29.8 per cent) to income before corporate taxes. The reasons for the differences are as follows;

For the six months ended on June 30 (in millions of dollars)	2011	2010
Income before corporate taxes	5.5	0.9
Computed corporate tax expense (recovery) - statutory rates	1.4	0.3
Non-taxable portion of capital and accounting gains and other	(1.2)	-
Change in valuation allowance	(0.1)	0.7
Effect of statutory tax rate substantively enacted during the year	0.1	0.9
Effect of tax rate changes on deferred corporate taxes	-	(0.1)
Other	(3.9)	(1.6)
Corporate tax (recovery) expense	(3.7)	0.2

Deferred corporate tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the deferred corporate tax (assets) and liabilities of the Corporation are as follows:

(in millions of dollars)	JUNE 30, 2011	DECEMBER 31, 2010
Deferred corporate tax assets:		
Government assistance	-	(12.0)
Property, plant and equipment	(26.6)	(19.9)
Contingencies, other liabilities and net amounts	(4.7)	(4.6)
Accrued benefit liability	(7.8)	(7.6)
Unrealized loss on derivative financial instruments	0.9	0.9
Loss carry-forward	(13.1)	(5.3)
	(51.3)	(48.5)
Less: valuation allowance	11.3	11.4
	(40.0)	(37.1)
Deferred corporate tax liabilities:		
Accrued benefit asset	40.7	37.5
Unrealized gain on derivative financial instruments	-	-
	40.7	37.5
Net deferred corporate tax liabilities	0.7	0.4
Presented in the Balance Sheet as:		
Deferred corporate tax assets	(1.3)	(12.0)
Deferred corporate tax liabilities	2.0	12.4
Net deferred corporate tax liabilities	0.7	0.4

The Corporation has \$55.4 million (June 30, 2010: \$79.5 million) of unused federal non-capital tax losses carried forward and their related year of expiry are as follows:

(in millions of dollars)	JUNE 30, 2011	JUNE 30, 2010
2010	-	0.7
2014	-	3.3
2015	-	12.0
2026	-	18.8
2028	-	4.8
2029	22.2	36.5
2030	33.2	3.4
	55.4	79.5

16. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of the funding used to purchase depreciable property, plant and equipment and intangible assets.

(in millions of dollars)	JUNE 30, 2011	DECEMBER 31, 2010
Balance, beginning of the period	954.3	736.7
Government funding for property, plant and equipment and intangible assets (excluding the cost of land)	110.3	266.6
Amortization of deferred capital funding	(21.0)	(49.0)
Balance, end of the period/year	1,043.6	954.3

17. CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. For all periods presented, 93,000 shares at \$100 per share are issued and fully paid.

The Corporation defines its capital as share capital and retained earnings and is regulated by the *Financial Administration Act*. The Corporation is not allowed to modify its capital structure without Government approval. The Corporation must obtain Government approval to issue debt instruments. Accordingly, the Corporation does not have access to external financing and does not have a flexible capital structure.

The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation did not change the way it manages its equity compared to last year.

18. COMMITMENTS

A) The Corporation has operating leases in place mainly for facilities, maintenance of way and computer equipment. The most important leases are for the Montreal and Toronto stations with respective terms of 10 and 49 years without renewal option as well as the lease for the Corporate headquarters in Montreal for a term of 12 years with a renewal option. The lease payments are increased to reflect normal inflation.

For the period of six months ended June 30, 2011 an amount of \$6.7 million (2010: six months ended June 30, 2010: \$6.8 million) was recognised as an expense in profit or loss in respect of operating leases.

The future minimum payments relating to operating leases with a cancellation option are as follows:

(in millions of dollars)	JUNE 30, 2011	DECEMBER 31, 2010
Less than one year	11.4	11.2
Between one and five years	39.3	40.1
More than five years	166.2	170.6
	216.9	221.9

B) As at June 30, 2011, the Corporation has outstanding major contract commitments amounting to \$270.1 million (December 2010: \$378.1 million) consisting mainly of maintenance, completion of rolling stock refurbishment projects and advertising. In 2009, the corporation initiated important investments related to the Federal Government's economic stimulus package and reliability program. The Corporation expects to make payments under these commitments over the next 4 years.

C) As mentioned in note 1, the Corporation has entered into train service agreements for the use of tracks and the control of train operations that expire on December 31, 2018.

D) The Corporation has issued letters of credit totalling approximately \$29.7 million (December 31, 2010: \$26.3 million) to various provincial government workers' compensation boards as security for future payment streams.

19. FINANCIAL INSTRUMENTS

A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments held by the Corporation are classified as follows:

(in millions of dollars)	JUNE 30, 2011 CARRYING VALUE			DECEMBER 31, 2010 CARRYING VALUE			JANUARY 1, 2010 CARRYING VALUE		
	FVTPL	AFS	L&R	FVTPL	AFS	L&R	FVTPL	AFS	L&R
Financial Assets:									
Cash and cash equivalents	6.9	10.7 ⁽²⁾	-	3.5	73.4 ⁽²⁾	-	-	4.9 ⁽²⁾	-
Accounts receivables	-	-	10.4 ⁽¹⁾	-	-	8.3 ⁽¹⁾	-	-	7.2 ⁽¹⁾
Derivative financial instruments	5.9 ⁽²⁾	-	-	4.6 ⁽²⁾	-	-	3.1 ⁽²⁾	-	-
Asset Renewal Fund – MAV notes	5.5	-	-	4.9	-	-	4.5	-	-
Asset Renewal Fund – Other investments	-	32.3 ⁽²⁾	-	-	36.0 ⁽²⁾	-	-	43.9 ⁽²⁾	-
		FVTPL	Other liability		FVTPL	Other liability		FVTPL	Other liability
Financial Liabilities:									
Accounts payable and accrued liabilities	-	-	87.0 ⁽⁴⁾	-	-	124.6 ⁽⁴⁾	-	-	103.5 ⁽⁴⁾
Derivative financial instruments	-	2.2 ⁽²⁾	-	-	1.2 ⁽²⁾	-	-	7.1 ⁽²⁾	-

FVTPL – Fair Value through profit and losses

AFS – Available for sale

L&R – Loans and receivables

(1) Comprised of trade receivables.

(2) Comprised of derivative financial instruments not designated in a hedge relationship.

(3) Comprised of short-term investments.

(4) Comprised of trade accounts payable, accrued liabilities and accrued wages.

B) FAIR VALUE

The estimated fair value of the recognized financial instruments other than financial instruments measured at FVTPL approximates their carrying value due to their current nature. FVTPL financial instruments and derivatives are carried at fair value.

The Corporation estimates the fair value of its MAV notes by discounting expected future cash flows. The valuation model incorporates assumptions for interest rates, required market yields and effective maturities, some of which are derived from observable market indicators. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the MAV notes.

The assumptions used in the valuation model include:

CRITERIA	ASSUMPTIONS	
	JUNE 30, 2011	DECEMBER 31, 2010
Expected term to maturity	5.0 years	5.5 years
Discount Rates	6.8% to 49%	8.6% to 43.6%
Coupon rates	CDOR swap - 50bps to CDOR swap + 30bps	CDOR swap - 50bps to CDOR swap + 30bps

If these assumptions were to change, the fair value of the MAV notes could change significantly. A 1.0% increase (decrease) in the discount rate would decrease (increase) the fair value of the MAV notes by approximately \$0.3 million (December 31, 2010: \$0.2 million).

All financial instruments measured at fair value are classified in fair value hierarchy levels, which are as follows:

Level 1 -

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.

Level 2 -

Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

Level 3 -

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The following table summarizes the fair value hierarchy applicable to the fair value measurement of financial assets and financial liabilities held by the Corporation (Note 1):

In millions of dollars	JUNE 30, 2011	LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Asset Renewal Fund – MAV notes	5.5	-	-	5.5
Asset Renewal Fund – Other investments	32.3	32.3	-	-
Derivative financial instruments	5.9	-	5.9	-
Liabilities:				
Derivative financial instruments	2.2	-	2.2	-

Note 1 – There have been no significant transfers between Level 1 and Level 2 during the period.

In millions of dollars	OCT. 31, 2010	LEVEL 1	LEVEL 2	LEVEL 3
Assets:				
Asset Renewal Fund – MAV notes	4.9	-	-	4.9
Asset Renewal Fund – Other investments	36.0	36.0	-	-
Derivative financial instruments	4.6	-	4.6	-
Liabilities:				
Derivative financial instruments	1.2	-	1.2	-

Note 1 – There have been no significant transfers between Level 1 and Level 2 during the period.

The table below presents a reconciliation of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

In millions of dollars	JUNE 30, 2011	DECEMBER 31, 2010
Asset Renewal Fund – MAV notes:		
Opening balance	4.9	4.5
Total gains in net income ⁽¹⁾	0.7	0.8
Sales	(0.1)	(0.4)
Closing balance	5.5	4.9

(1) A gain of \$0.7 M is included in this amount and attributable to assets still held at the end of the period.

C) RISK MANAGEMENT

As part of its operations, the Corporation enters into transactions with financial risks exposure such as credit, liquidity and market risks. Exposure to such risks is significantly reduced through close monitoring and strategies that include the use of derivative financial instruments.

D) FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risks on the following balances that are denominated in U.S. dollars (USD):

(in millions of dollars)	JUNE 30, 2011	DECEMBER 31, 2010
Assets:		
Derivative financial instruments	5.9	4.6
Liabilities:		
Accounts payables and accrued liabilities	1.9	1.2
Derivative financial instruments	2.2	1.2

The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. To help manage this risk, the Corporation has entered into foreign exchange forward contracts related to fuel swaps and the purchase of materials from the U.S. to refurbish some of its locomotives fleet.

A variance of 5% in the exchange rate of USD would not have a significant impact on the Corporation's net income.

E) CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms and conditions of the agreement. The carrying amount of financial assets is \$71.7 million (December 31, 2010: 130.7 million) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of its financial assets. The Corporation minimizes credit risk on cash and cash equivalents, investments, Asset Renewal Fund and derivative financial instruments by dealing only with reputable and high quality financial institutions. The Corporation's exposure to credit risks on trade accounts receivable is reduced by applying a credit policy that establishes limits on the concentration of risk, requires assessing and monitoring of counterparty credit risk and sets credit limits. Only Canadian Government departments and agencies, Crown corporations issuing government travel warrants and travel agents who are members of the International Air Transport Association (Billing and Settlement Plan /Airline Reporting Corporation) are exempt from the Corporation's credit approval process.

As at June 30, 2011, approximately 19.6 per cent (December 31, 2010: 19.8 per cent) of trade accounts receivable were over 90 days past due, while approximately 68.4 per cent (December 31, 2010: 69.9 per cent) of trade accounts receivable were current (under 30 days).

As at June 30, 2011, the allowance for bad debt was \$1.0 million (December 31, 2010: \$0.8 million). The allowance for bad debt is based on an account by account analysis that considers the ageing of the account and the current credit-worthiness of the customer.

F) FUEL PRICE RISK

In order to manage its exposure to changes in fuel and heating oil prices and minimize volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. A fluctuation of 10% in the USD price of heating oil or fuel would not have a significant impact on the financial statements.

G) LIQUIDITY RISK

The Corporation manages its liquidity risk by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and funding activities. The liquidity risk is low since the Corporation does not have debt instruments to service and receives regular funding from the Government of Canada.

The reported financial liabilities in item a) above totaling \$ 89.2 million (December 31, 2010: 125.8 million) represent the maximum liquidity risk exposure for the Corporation.

The following table summarizes the contractual maturities for the derivative and non-derivative financial liabilities as at June 30, 2011:

(in millions of dollars)	LESS THAN 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 2 YEARS	OVER 2 YEARS	TOTAL
Accounts payable and accrued liabilities	82.7	-	0.1	2.1	2.1	87.0
Derivative financial liabilities	0.5	0.6	0.5	0.6	-	2.2

H) INTEREST RATE RISK

Interest rate risk is defined as the Corporation's exposure to a loss of earnings or a loss in the value of its financial instruments as a result of fluctuations in interest rates. The Corporation is exposed to interest rate risk associated with cash equivalents and the Asset Renewal Fund for a total of \$54.3 million (December 2010: \$117.8 million). A variation of 100bps in the interest rates would affect the investment income but would not have a significant impact on the Financial Statements.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses commodity or price swaps where it exchanges cash payments based on changes in the price of a commodity (i.e. heating oil) or a market index. The Corporation also enters into foreign exchange forward contracts to either buy or sell USD at a specified price and date in the future. These contracts are related to fuel swaps and a future capital project.

At the end of the period, the Corporation had the following derivative financial instruments with positive fair values:

Description	PERIOD	FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (000'S OF U.S. GALLONS)	FAIR VALUE CAD (000'S)	
(1)		JUNE 30, 2011	JUNE 30, 2011	JUNE 30, 2011	DEC. 31, 2010
Crude swap	2011	1.670 to 2.940	8,562	4,161	3,769
Crude swap	2012	1.957 to 3.074	8,064	1,590	880
Crude swap	2013	2.309 to 2.345	2,016	145	-
Derivative financial instruments with positive fair value				5,896	4,649

(1) - These financial instruments have a monthly settlement schedule.

At the end of the period, the Corporation had the following derivative financial instruments with negative fair values:

Description	PERIOD	FIXED PRICE PER U.S. GALLON (USD)	NOTIONAL QUANTITY (000'S OF U.S. GALLONS)	FAIR VALUE CAD (000'S)	
(1)		JUNE 30, 2011	JUNE 30, 2011	JUNE 30, 2011	DEC. 31, 2010
Crude swap	2012	3.074 to 3.149	3,024	(271)	-

(1) - These financial instruments have a monthly settlement schedule.

At the end of the period (year), the Corporation had the following derivative financial instruments with negative fair values:

Description	PERIOD	FORWARD RATE CAD / USD	NOTIONAL AMOUNT (USD) (000'S)	FAIR VALUE CAD (000'S)	
(1)		JUNE 30, 2011	JUNE 30, 2011	JUNE 30, 2011	DEC. 31, 2010
Foreign Exchange Forward	2011	1.005 to 1.150	24,103	(1,065)	(996)
Foreign Exchange Forward	2012	0.980 to 1.036	38,738	(791)	(205)
Foreign Exchange Forward	2013	0.992 to 0.997	2,843	(35)	-
				(1,891)	(1,201)
				(2,162)	(1,201)

1 - These financial instruments have a monthly settlement schedule.

The fair values of the derivative financial instruments are estimated as the discounted unrealized gain or loss calculated based on the market price at the end of the period, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the Balance Sheet date. The fair values of the derivative financial instruments are provided to the Corporation by the chartered banks that are the counterparties to the transactions. The credit risk related to these banks is considered very low since the Corporation deals only with reputable and high quality financial institutions.

The fair values are determined using well-established proprietary valuation models, such as the modified Black-Scholes model, and incorporate prevailing market rates and prices on the underlying instruments. The Corporation has performed additional review procedures on the fair value amounts to satisfy itself that they are reasonable.

The discounting of the fair value of transactions is based on the boot-strapping method incorporating a set of bond yields over the term of the instruments in order to provide appropriate discount factors.

21. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at the exchange value. Other than disclosed elsewhere in these Financial Statements, related party transactions are not significant.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

22. NON-MONETARY TRANSACTIONS

The Corporation recorded revenue from non-monetary transactions of approximately \$0.6 million for the period ended June 30, 2011 (as at December 2010: \$1.4 million) under "Passenger revenue" in the Statement of Operations and Comprehensive Income. The Corporation also recorded expenses from non-monetary transactions of approximately \$0.7 million (as at December 31, 2010: \$1.4 million) mainly under "Marketing and sales" and "Other expenses" in the Statement of Operations and Comprehensive Income. The nature of non-monetary transactions is mainly related to advertising activities.

23. CONTINGENCIES

The Corporation's operations are subject to numerous federal, provincial, and municipal environmental laws and regulations concerning among other things, the management of air emissions, wastewater, hazardous materials, wastes and soil contamination as well as the management and decommissioning of underground and aboveground storage tanks. A risk of environmental liability is inherent in railroad and related transportation operations, real estate ownership and other activities of the Corporation with respect to both current and past operations.

The Corporation has performed a review of all of its operations and of all of its sites and facilities at risk in order to determine the potential environmental risks. The sites and the facilities for which environmental risks were identified were or will be the subject of thorough studies and corrective actions were or will be taken if necessary in order to eliminate or to mitigate these risks. The continuous risk management process that is in place allows the Corporation to monitor its activities and properties under normal operating conditions as well as monitor accidents that occur. The properties likely to be contaminated or the activities or property, plant and equipment likely to cause a contamination are addressed, at the moment of their observation, by the development of an action plan according to the nature and the importance of the impact and the applicable requirements.

When remediation costs can be reasonably estimated, a provision is recorded based on the anticipated future costs.

However, the Corporation's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

- (I) the lack of specific technical information available with respect to many sites;
- (II) the absence of any third-party claims with respect to particular sites;
- (III) the uncertainty regarding the ability to recover costs from any third parties with respect to particular sites;
- (IV) the fact that the environmental responsibility has not been clearly attributed.

There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future, or will not have a material adverse effect on the Corporation's financial position.

24. ASSET RETIREMENT OBLIGATION

The Corporation has entered into certain operating leases where the lessor has the option of requesting that the land/ structures or the other assets be returned in the same condition as they were originally leased, or of retaking control of these assets without any compensation to the Corporation for any additions or modifications made to the initial assets. Given the nature of the assets under contract and the options available to the lessor, the asset retirement obligation cannot be reasonably estimated. No liability has been recognized in the Financial Statements.